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INTRODUCTION*

The issue of services in the international context has come to prominence in recent years reflecting greater awareness on the part of academics, governments and international organizations of the crucial role that services assume in growth and development. This role has been sharply enhanced by developments in information and communication technologies (telematics) that have both improved the efficiency of producing goods and services and the tradeability of services in general, altering in the process existing comparative advantages and creating new ones in favour of developed countries and their transnational corporations. Growing concern with services has led to their inclusion, for the first time, on the agenda of the current GATT-sponsored multilateral trade negotiations (the Uruguay Round). The desirability of including services in the negotiations, as well as the scope, modalilty and forum of negotiations, have given rise to considerable controversy between developed and developing countries.

Services play an important role in the economies of Western Asia through their direct contribution to output, employment and balance of payments. A fuller understanding of this role is needed, however, to take better account of their potential for growth, development and export expansion and diversification. The countries of Western Asia need to open up new development and export options; services offer such possibilities. Notwithstanding this, the role of international transactions in services in the development process has generally received little attention in the region; their treatment generally remaining incidental to the analysis of overall balance of payments positions and foreign exchange earnings and uses.

The countries of Western Asia, aside from the two least developed members (the two Yemens) may be grouped essentially into service-exporting countries (Egypt, Jordan, Lebanon and the Syrian Arab Republic) and service-importing countries (Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates). The two groups, however, are not mutually exclusive; for example, Bahrain is also an important exporter of services.

Reducing excessive dependence on the outside world and diversification of production and trade structures are paramount considerations in the efforts of the services-importing group as a whole to develop their service sectors. In the smaller oil producers, promoting the service sector appears to offer them a chance to diversify their national economies, given the difficulties encountered in establishing and maintaining viable agricultural and industrial activities aside from those related to oil.

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* The present paper is based on the following works of the secretariat of the Economic and Social Commission for Western Asia: Trade in Services: Growth and Balance of Payments Implications for the Countries of Western Asia, E/ESCWA/DPD/87/16); Trade in Services and Development in Western Asia (E/ESCWA/DPD/88/6); Recent Developments in External Trade and Payments of the ESCWA Region (E/ESCWA/DPD/88/2); and Developments in the External Sector of the ESCWA Region in the 1980s (E/ESCWA/DPD/89/2). The secretariat also organized an Intergovernmental Meeting on Trade in Services and Development in the ESCWA Region (Baghdad, 17-19 January 1989).

Balance of payments considerations largely explain the concern with services in the predominantly services-exporting countries. Disillusionment with the performance of agriculture and industry to produce the desired impact in terms of production and trade diversification, as well as generation of adequate foreign exchange resources, have helped focus attention on the potential of services in this respect.

Growing awareness about the development potential of exporting services is generating new thinking and approaches to the problem, as in the case of Jordan which is striving to become a regional services centre. While continuing to provide the traditional type of services for which it is well-endowed, emphasis is being placed on developing and exporting services that have a higher technological content. This reflects a belief that the era of exporting labour-embodied services to the Gulf region may have already reached its peak and is, as a matter of fact, on the decrease. Hence, the need to direct efforts at exporting the type of services for which demand is proven such as engineering and consulting services; health and educational services; technical and professional services; touristic services; and various types of training services (e.g., banking and other financial services, management). Toward this end, Jordan is attempting to optimize the use of the high quality manpower with which it is endowed, and is reassessing its educational programmes to produce the types of skills to put its new strategy in effect.

As in the past, the regional market, notably the Gulf sub-region, can be expected to remain the focus of export activity in the area of services. Aside from the quality of exportable services, security and political considerations will remain a major influence in penetrating the market. Unfair competition from other suppliers with a technological lead (transnational corporations) or that offer subsidized services is another important challenge with which actual or potential exporters from the region must reckon.

The markets of other developing countries can also offer a potential outlet for exporting some services in which the countries of Western Asia have developed specialized knowledge, or comparative advantage such as oil-related services (oil drilling, maintenance of oil fields and safety measures); consulting and engineering services; banking, insurance and financial services; port operations; agricultural technologies; and, groundwater exploration and development.

The analysis of services in the international context encounters both conceptual, or definitional, and statistical problems.

The most commonly used definition of services in the international context has been that followed by the International Monetary Fund in compiling balance of payments data. In addition to what is referred to as non-factor services (i.e., shipment, other transportation, travel and other private and official services), the Fund's definition includes investment income - which is a return to the factor capital - but excludes workers' remittances - which is a return to the factor labour.

The present paper adopts the broader concept of international transactions in services, encompassing both non-factor and factor services, in preference to the more circumscribed definition involving only traded or non-factor services. In part, this reflects the absence of an agreed definition as to what constitutes trade in services. Moreover, transactions related to factor services are not only of great significance to the countries of Western Asia, but are also a key controversial issue in the current round of multilateral trade negotiations.

Because of statistical constraints, the analysis of international transactions in services concentrates on nine of the fourteen ESCWA countries, namely, Bahrain, Democratic Yemen, Egypt, Jordan, Kuwait, Oman, Saudi Arabia, the Syrian Arab Republic and Yemen. These have been grouped into three categories: the Gulf Co-operation Council (GCC) countries, which are essentially importers of services and comprising Bahrain, Kuwait, Oman and Saudi Arabia; non-oil (diversified) economies which are basically exporters of services including Egypt, Jordan and the Syrian Arab Republic; and, the least developed countries, or the two Yemens.

Issues related to services in the development process in general, and the role of services in domestic economic activity in countries of Western Asia are examined in Chapters I and II, respectively. Chapter III addresses issues related to the definition of services in the international context, and focuses on the contribution of services to, and the relative importance of major service categories and countries in, current earnings and uses of foreign exchange in member countries, and considers briefly their implications for savings and resource availabilities. Chapter IV provides a brief analysis of the role of services in the regional context. Services aspects of the current Uruguay Round of multilateral trade negotiation form the subject matter of Chapter V which analyses the interest of member countries in the negotiations and their ability to influence the outcome.

I. SERVICES IN THE DEVELOPMENT PROCESS: AN OVERALL VIEW

Services play a vital role in economic growth and development through their direct contribution to output, employment and the balance of payments world-wide. The importance of services, however, cannot be gauged from such quantitative indicators alone. The underlying significance of services derives from their interlinkages with the rest of the economy, their impact on the pattern of international competitiveness and division of labour, and their being increasingly associated with high-technology developments.

Services enter the economic cycle as final or consumer products, and as inputs or "producer services" into the production of goods and other services. As inputs, they also provide the means by which production reaches users in both domestic and foreign markets. As a key component of the infrastructure of a country, adequate services are critical for growth and development. Transport and communication, for example, are a must for any form of political or economic integration. Together with services like insurance, legal and marketing advice they render international trade possible and less risky. Public administration influences the development process not only through direct involvement by governments in economic activity but also, and perhaps more importantly, by influencing the overall economic and social environment.

The provision of "in-house" services (e.g., accounting, legal services and advertising) is an important factor in the vertical integration of corporate activities, and hence their efficiency, while the opposite tendency, namely, that of obtaining services from specialized firms, helps to improve efficiency through greater specialization and scale economies.

Of critical importance to the development process is the availability of adequate technological services the need for which, especially in developing countries, is felt from the conception stage through initiation, development, construction, operation and maintenance of projects.

While there is agreement about the crucial role of services in economic growth and development, views remain widely apart as to how this takes place, giving rise to different policy interpretations that are particularly relevant to the situation of developing countries.

A. Rise of the "Service Economy"

Attempts to explain the move toward a "service economy" have been found to fall between two fundamentally opposed theses. The conventional, or traditional theory, assigns a more or less passive role to the service sector, the growth of which is viewed as a natural sequence of the development process itself or, put differently, as the ultimate stage of that process. The second perception emphasizes the dynamic role of services and their interlinkages with the rest of the economy, and views the shift to services to be essentially the outcome of fundamental advances in technology and associated changes in corporate structures.1/

Advocates of the conventional theory perceive the development process in terms of a transition from a "pre-industrial" phase - in which primary occupations (i.e., agriculture and extractive activities) dominate the economic scene - into an "industrial" phase - where manufacturing assumes the lead in terms of output and employment - and finally the emergence of a "post-industrial" phase or a service economy. As an explanation, the conventional theory stresses the higher income elasticity of demand for services and the inherent low productivity of the service sector.2/ Slower productivity growth enables the service sector to provide jobs for new entrants to the labour force, largely women, and for workers released from manufacturing and other sectors, and to act as an employer of last resort or a buffer against recession.3/

The ability of the traditional, or so-called "three-stage" theory, to explain the growth of the "service economy" or the "post-industrial" state has been increasingly placed in question by recent studies, being regarded as a partial explanation at best.4/ Greater importance is accorded by critics to changes in the occupational distribution of employment within sectors than to changes in demand patterns between them resulting from higher incomes.

Critics have also emphasized the growing importance of services as inputs, or producer services, as a concomitant of the process of reorganization that firms have been undertaking as part of their continuous efforts to adapt to

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1/ UNCTAD, Problems of Protectionism and Structural Adjustment, Part II: Trends in Production and Trade in All Sectors and Their Underlying Factors (TD/B/1081 (Part II), 20 January 1986), para. 53.

2/ This seems to follow from the assumption usually made that the primary resource base in the service sector is labour, with the attendant implication that service industries cannot achieve levels of efficiency possible in capital-intensive industries. In fact, service industries include labour-intensive as well as capital-intensive activities and are becoming increasingly technology dependent (see: D.I. Riddle, "Critical Issues in Services Research: A Literature Review", paper prepared for presentation to the annual meeting of the Southern Marketing Association (Orlando, Fl., November 1985), pp.5-6).

3/ At a macro level, the shift in employment to the service sector can be partially attributed to lack of opportunities in other sectors, notably manufacturing, due to such factors as recession, labour-saving technologies and rising international competition both in the domestic market and abroad. At the micro level, the shift reflects the emergence of the service sector as the employer of last resort helped by lower pay, fewer social benefits and greater possibilities for part-time work. (see: M. Gibbs, "Continuing the International Debate on Services", reprinted from Journal of World Trade Law, Vol. 19, No.3, May/June 1985, p. 206).

4/ UNCTAD, Services and the Development Process, TD/B/1008/Rev.1, (United Nations Publication, Sales No.E.85.II.D.13), para. 18.

changes in economic conditions and, more importantly, to technological innovations in informatics and communication. This process has generally involved two opposing movements: an "externalization" and an "internalization" of services. Externalization has entailed a reduction in reliance on in-house services in favour of purchases from independent and specialized service firms, giving rise to a new differentiation of industries and a more specialized division of labour and, in the process reducing costs for larger firms and making such services increasingly accessible to smaller ones thus enhancing their adaptability and competitiveness and increasing their opportunities to exploit economies of scale. Internalization, on the other hand, has involved the incorporation within the firm itself of information-based services, thus expanding the capacity to offer a wide range of services and/or a combination of services alone or in association with goods. In this respect, many of the new jobs in services can be seen as directly supportive of a more efficient manufacturing sector.[1/]

The rapid expansion in producer services has contributed to change perceptions about productivity in services. The "industrialization" of services through improvement in organization, economies of scale and the introduction of new technologies, especially in the areas of information and communication has, as in the manufacturing sector, led to higher productivity in producer services as well as in traditional service activities.

It would appear that the polarization between the proponents of the conventional theory and their critics is based essentially on different political perspectives and, in part, reflects differences in focus with the first group stressing services of low labour quality and stagnating demand for manufactures, while the other group stressing more dynamism and high labour quality services (producer services). In reality both forces may be at work in parallel[2/].

B. <u>New Technologies and Role of Transnational Corporations (TNCs)</u>

Technological advances, notably in the areas of information and communication (telematics), play a key role in the growth of the service economy by radically changing the quality of the services supplied, affecting international competitiveness in trade in goods by supplying certain key services, but above all through the integration of goods and services[3/] production and enhanced tradeability of services. By greatly increasing the transportability of services and making it possible to link instantaneously the lieu of production with that of consumption, information technology is helping to overcome a major obstacle to trade in services, namely their non-storable nature. It has also enabled firms with access to information to offer an expanding variety of services and to add to such services at little

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1/ Gibbs, op.cit.

2/ TD/B/1081, Part II, op.cit., para. 67.

3/ The integration between manufacturing and services is seen as a decisive component of business success. See: UNCTAD, <u>Services and the Development Process: Further Studies Pursuant to Conference Resolution 159 (VI) and Board Decision 309 (XXX)</u> (TD/B/1100, 2 July 1986), para. 12.

cost once the information system or "grid" was in place. It has also made possible the replacement of people providing services with goods and electronic transfers of information.

Recent technological innovations in information and communication have contributed to increase the services content of goods. This process of "tertiarization" of goods production has proceeded along two different paths. On the one hand, recent years have witnessed a growing reliance by production units on services produced by independent firms and/or subsidiaries purchased or established for that purpose - or a process of "externalization" of services production (e.g., computer services, management advisory services, quality control, legal services and accounting). On the other hand, a process of "internalization" has been observed where firms incorporate in their structure information-based services that enhance their overall competitiveness and broadens the scope of their operations.

A consequence of far reaching implications of the increased tradeability of many services (e.g., financial services, accounting, insurance, architectural design, legal services, consulting, education and the entire range of data servicing) has been to broaden the range of options through which services can be delivered - trade or foreign direct investment. Recent developments in information and communication technology could be a strong inducement in favour of the trade option[1/], while the increased transportability of certain services (e.g., data and information processing, transmission and use) as well as of service substitutes (i.e., trade of machinery and goods which at least partially substitute certain services) contribute to make the penetration of foreign service markets less capital intensive, thus increasing the attractiveness of foreign direct investment.[2/]

More directly, the application of new technologies is contributing to change comparative advantages and trade patterns not only through the production of cheaper and better quality goods and services that incorporate more efficient producer services, but also, and increasingly, by making the production of more flexible and "customarized" services possible, i.e., permitting economies of scope besides economies of scale.

TNCs dominate world supplies of services, especially data-based services, through their ownership of technology, information networks, access to capital and their ability to offer a wide range of services or a combination of goods and services.

The choice by TNCs to supply a foreign market either through trade or investment is a matter of corporate strategy and feasibility that takes into account the tradeability of the services in the sense of both its transportability and access (as determined by the trade regulatory mechanism in place).

1/ United Nations Centre on Transnational Corporations (UNCTC), Trends and Issues in Foreign Direct Investment and Related Flows, United Nations publication, Sales No. E.85.II.A.15, p.88).

2/ TD/B/1100, op.cit., para. 12.

The "transnationalization" of services has been spurred by the TNCs desire to follow and serve their major clients abroad, and to seek new markets as part of their strategy to diversify operations and remain competitive. The tendency for TNCs to offer a widening variety of services has been in response to growing competition[1/]. It is also a factor in explaining the wave of mergers between service companies and between goods and service companies. The combination of financial strength with technical capacity has enhanced the capabilities of the new conglomerates to offer a wide package of services and goods on a global basis.

C. Some Implications for Developing Countries

The crucial difference between the service sector in developed and developing countries resides more in the composition of the sector and its contribution through interlinkages to the rest of the economy than in its size; in one instance, the service sector is supportive of growth, in the other it is not.[2/]

The GDP segment "other services", which includes informatics and computer activities that are at the core of the so-called high technology industries, is much larger and growing faster in the developed countries. Comparisons between the two groups can be further distorted by the existence of a large "informal" service sector in developing countries. Moreover, the producer services sector is still lagging in developing countries and remains beyond the reach of large segments of society.

The automacity of the process implied by the conventional theory of development negates the need for an explicit service policy on the part of developing countries. The theory has also serious implications for developing countries' participation in international trade and negotiations, being predicated on the notion that a more rational division of labour would emerge if developed countries were to specialize in the supply of services while developing countries concentrated on goods, thus opening the way for an exchange of concessions in which developed countries liberalize trade in goods in exchange for access to their exports of services in developing countries' markets. Such a process might in practice deprive developing countries of control over inputs (services) into their development process and ultimately weaken their ability to export manufactures as well.

Another important concern for developing countries relates to the impact on existing patterns of comparative advantages of the application of new technologically-advanced services to the production of goods and other services. By reducing labour costs per unit of output - as is already happening in textiles and clothing through automation - the new technologies are undermining the competitive edge long held - and believed to be secure - by developing countries in the production and export of labour-intensive

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1/ Competition at home may have also contributed to TNCs not only seeking to broaden the range of products offered but also their client base by going abroad (see: UNCTC, op.cit., p. 86).

2/ TD/B/1081, op.cit., para. 88.

products. The adoption of new technologies is expected to further erode existing advantages, making it imperative for developing countries to re-examine their development and trade policies from a new perspective. These technologies are also affecting competitiveness in favour of developed countries in virtually all services sectors including banking, insurance, engineering design and consultancy, sea and air transport.

There is also the risk that advances in technology and their application by TNCs on a global basis could lead to an intra-firm division of labour whereby developing countries are accorded the less sophisticated tasks, while giving the parent companies, through access to computer communications systems, a definite edge over local competitors. This in turn, will exert an influence on the location of industry and the flow of direct foreign investment.

While developing countries may gain significantly from improvements in the efficiency of world markets[1/] - e.g., in terms of increased transparency - associated with greater integration of world markets brought about by the rapid growth of trade and foreign direct investment in data services - these countries could find themselves operating under increased pressure as changes in comparative advantage are more rapidly translated into changes in patterns of trade and localization. The greater speed at which shocks to the world economy may be transmitted will place greater adjustment pressures on the weaker developing economies. Among the main policy issues that need to be addressed by developing countries is the extent to which they should and could import technology or develop indigenous capacity. Given the highly skilled labour involved in traded services, and the technological content of these services, the success of the latter course of action would have to go beyond putting into effect a regulatory framework to deal with TNCs to encompass policies aimed at upgrading the domestic technical and educational infrastructure, particularly in the areas of information (computer science) and telecommunications for data transmission.[2/]

1/ UNCTAD, International Trade and Foreign Direct Investment in Data Services: Transborder Data Flows in the Context of Services and the Development Process, (TD/B/1016), 27 August 1984, paras. 72-4.

2/ TD/B/1008/Rev. 1, op. cit, para. 168.

II. SERVICES IN DOMESTIC ECONOMIC ACTIVITY IN WESTERN ASIA

A. Conceptual Issues and Problems of Measurement

The nature of output provides one criterion for allocating productive activities into service and non-service categories. According to one perception, the service sector would cover those activities that involve intangible outputs. Such a classification, however, fails to take into consideration some important economic activities, as construction and utilities involving tangible outputs commonly regarded as being service-related. Another criterion focuses on the characteristics of the complementary activities distinguishing between "commodity" and "non-commodity"-producing sectors. The latter is identified with service activities and defined to include all activities other than agriculture, mining and quarrying, and manufacturing.

The use of the national accounts classification of services involves two major conceptual problems.[1/] First, the size of the domestic service sector may be under-reported as a result of the incorporation of service activities within goods-producing operations, especially manufacturing, so that these service inputs are recorded in the national accounts statistics as part of the output of the relevant goods-producing sector. But this phenomenon is likely to be more important in the more industrially developed economies where the large size of enterprises justifies the integration of service activities traditionally produced by independent specialized firms (e.g., legal counsel, accounting services, research development, marketing and advertising). Second, the size of the domestic service sector may be further understated by failure to record transactions originating in the "informal" sector which is of considerable importance in the economies of many developing countries. The services omitted relate to operations performed within the household, or "consumer" services (such as laundry, food preparation, gardening, clothing repair), but more importantly they concern a wide range of services which are carried out in small workshops and unregistered premises, or even without a focal point, and thus go unrecorded (such as repair and maintenance, car washing, and performing for a fee such formalities as customs clearance and real estate and car registration).

Conceptual and practical considerations give rise to questions about the validity of treating construction, utilities and government services as components of the service sector. The exclusion of utilities and government services focuses attention on the private sector which traditionally has been the subject of most studies in this field. However, in a region such as Western Asia where governments are generally quite active in the provision of services, a distinction between a "public" and a "private" service sector based simply on the exclusion/inclusion of entire activities from one domain or the other could be highly misleading and irrelevant. Moreover, the exclusion of government services ignores the crucial "facilitative or

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1/ UNCTAD, Production and Trade in Services: Policies and Their Underlying Factors Bearing Upon International Service Transactions, TD/B/941/Rev.1 (United Nations Publication, Sales No. E.84.II.D.2); paras. 67 and 68; and TD/B/1008/Rev.1, op.cit., Annex I.

non-facilitative" role these assume in determining the overall health of an economy. The suggestion to exclude the public sector has, at times, been predicated on the view that it is a separate industry while in fact, and apart from the administrative functions, the public sector simply embraces industries operated under a different form of ownership. The confusion, in this case, stems from inability to separate functional issues from ownership issues,1/ and failure to recognize that the provision of a service by the public or private sector may reflect different policy choices and/or economic systems in effect rather than differences in the nature of the activity.

It is also arguable that while both construction and utilities provide a service to the community, that service is embodied in a tangible output, or a consumable good. The practice of including utilities within the service sector is explained by their being essential to production of most goods and services, though it can be argued that it is the consumer use of utilities which is the relevant consideration. However, it is not possible to separate this use from the industrial function so as to determine the service component of utilities with greater accuracy. Similarly construction, which is generally treated as part of the industrial sector along with manufacturing and mining, includes both a goods component (e.g., buildings, bridges, dams) and a service component (e.g., designing and execution); the latter being the relatively smaller one. However, the output of the construction sector may be differentiated from other tangible outputs produced within the agricultural, mining or manufacturing sectors by its much longer life span and the diffusion of the service rendered across virtually all sectors.

The analysis of the size and nature of the service sector is further hampered by the relative underdevelopment of the statistics, reflected mainly in the lack of disaggregation and of historical data. In part, this stems from the intangible and heterogenous2/ nature of services in general and the non-market character of some important services, which renders their measurement relatively difficult.

Thus, the significance of the service sector in domestic economic activity could vary widely depending on the definition adopted. Four possible

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1/ Riddle, op.cit., p.5.

2/ The word services has been described to include, inter alia: (a) infrastructural services such as transport and communication, electricity and water supply; (b) social services such as education and health; (c) financial services such as banking, insurance, accounting and brokerage; (d) technological services such as construction, engineering and consultancy; (e) marketing services such advertising, wholesaling and retailing; (f) commercial services such as chartering, leasing and franchising; (g) professional services such as those provided by lawyers, doctors and architects; (h) government services such as those in public administration and defence; (i) personal services such as hotels, restaurants, hair dressers, beauty parlors (see: D. Nayyar, "International Trade in Services: Implications for Developing Countries", Export-Import Bank of India, Annual Lecture: 1986, pp. 2-3).

definitions of services were considered in an earlier UNCTAD study.[1/]

The narrow definition identifies the service sector with all private economic activities producing intangible outputs. It thus excludes construction, utilities, public administration and defence, in addition to agriculture, mining and manufacturing. Using this definition, the service sector accounted, on average, for almost one quarter of GDP of Western Asia in 1982-1984 (see Table II-1).

The extension of the definition to cover utilities does not alter the picture significantly, given the relatively small magnitudes involved.

The contribution of services to domestic economic activity rises sharply, by about 15 percentage points to over 39 per cent of GDP, with the further extension of coverage to encompass producers of community, social and personal services. The jump is evident in all countries, being especially pronounced in Jordan, Lebanon, the Syrian Arab Republic, Qatar and the two Yemens.

The addition of construction raises the share of services in overall GDP by another 10 percentage points, to 49 per cent. The change is especially evident in the case of the GCC countries, notably in Saudi Arabia and Kuwait.

In this paper, the broader definition of services will be used which includes: utilities; construction; wholesale and retail trade, restaurants and hotels; transport, storage and communication; financing, insurance, real estate and business services; and community, social and personal services (producers of government services, producers of private non-profit services to households, and domestic services to households).

B. Production and Employment in the Service Sector

1. Services in gross domestic product

The service sector, broadly defined, has been assuming increasing importance in the economy of Western Asia; its share in aggregate gross domestic product (GDP) rising from an average of about 30 per cent in 1976-1978 to 35 per cent in 1979-1981, and further to 49 per cent in 1982-1984 (see Table II-2).[2/] The improvement between 1976 and 1981 coincided with a rapidly rising gross domestic product (GDP), while in the subsequent period the continued expansion in the contribution of the service sector was associated with a sharp contraction in the contribution of other sectors, thus helping to limit the fall in GDP as a whole.

The overall picture depicted above follows closely the trend in the GCC countries. In contrast, the contribution of the service sector to overall economic activity in the non-oil (diversified) economies and in the least developed member countries - where services generally account for a much higher share of GDP - did not change significantly.

1/ TD/B/941/Rev.1, op.cit., paras. 63-66. This study seems to have implicitly adopted the broader definition. In a subsequent study, however, it was stated that "services are most commonly defined as all economic activities excluding agriculture, mining, manufactures, construction and utilities (TD/B/1008/Rev.1, op.cit., Annex I, p.1.)

2/ Excluding Iraq for which data were not available beyond 1981.

Table II-1. Share of the Services Sector in GDP Under Alternative Definitions, 1982-1984 (Average)
(Per cent)

	Definition			
	A	B	C	D
Bahrain	41.0	42.0	55.1	62.4
Democratic Yemen	27.6	28.8	50.6	61.8
Egypt	30.5	31.1	47.6	52.2
Iraq (1979-1981)	14.3	14.7	24.0	32.9
Jordan	37.7	39.7	68.5	77.1
Kuwait	21.4	22.1	34.7	39.0
Lebanon	50.4	54.7	78.1	81.9
Oman	20.3	21.1	33.1	39.2
Qatar	14.1	14.5	33.4	38.2
Saudi Arabia	21.0	21.1	34.4	47.5
Syrian Arab Republic	39.1	...	59.5	66.7
United Arab Emirates	22.4	24.2	34.3	44.7
Yemen	28.3	29.6	48.5	56.1
Total (excl. Iraq)	24.5	25.1	39.4	49.0
Gulf Co-operation Council (GCC)a/	21.5	22.0	34.9	45.6
Non-oil (diversified) economiesb/	34.3	35.0	53.8	59.4
Least developed countriesc/	28.1	29.4	48.9	57.3

Source: E/ESCWA/DPD/87/16, Appendix Table A-1.
a/ Bahrain, Kuwiat, Oman, Qatar, Saudi Arabia and United Arab Emirates.
b/ Egypt, Jordan, Lebanon and Syrian Arab Republic.
c/ Democratic Yemen and Yemen.
A= Narrow definition (includes wholesale and retail trade, restaurants and hotels; transport, storage and communication; and financial institutions, insurance, real estate and business services).
B=A extended to include utilities.
C=B extended to include community, social and personal services (producers of government services; producers of private non-profit services to households; and domestic services to households).
D=C extended to include construction.

2. Structure and growth of services output

In terms of value added, community, social and personal services are the leading service activities in the ESCWA region as a whole. Their value added almost doubled over the period reviewed raising their share in the total from an average of about 25 per cent in 1976-1978 to 29 per cent in 1982-1984 (see Table II-3).1/ Over the same interval, the contribution of the construction sector receded from 26 per cent to 20 per cent as value added began to fall after 1981. The wholesale and retail trade sector retained its share at about 22 per cent while transport and finance improved their position slightly to about 12 per cent and 16 per cent, respectively.

1/ This activity is dominated by "producers of government services" which accounted in 1982-84 for 83 per cent of the total in the nine countries for which details were reported.

Table II-2. Contribution of Services to GDP
(Three-year averages)

	Per cent of GDP			Increment ($ million)			
	1976-1978	1979-1981	1982-1984	(1979-1981) GDP	(1976-1978) Services	(1982-1984) GDP	(1979-1981) Services
Bahrain	49.9	54.5	62.4	408.8	374.1	569.0	648.9
Democratic Yemen	69.6	65.4	61.8	165.6	87.5	210.5	106.5
Egypt	49.4	51.4	52.2	6820.9	3854.3	7129.5	3944.1
Iraq	20.0	32.9	(56.0)a/	6263.6	7094.6	...	...
Jordan	76.3	76.5	77.1	836.5	645.0	787.2	623.8
Kuwait	18.9	24.2	39.0	-2292.4	1097.0	-6666.0	1626.0
Lebanon	76.5	80.3	81.9	909.1	841.4	-1453.1	-1130.4
Oman	25.2	35.5	39.2	310.5	675.0	1668.2	868.2
Qatar	23.6	29.7	38.2	335.5	565.8	-980.6	305.4
Saudi Arabia	23.2	28.3	47.5	21525.3	12724.5	-42394.2	8691.5
Syrian Arab Republic	59.8	64.4	66.7	2070.9	1856.2	1563.5	1350.0
United Arab Emirates	39.9	36.0	44.7	10107.8	2916.4	-405.7	2316.9
Yemen	50.5	53.2	56.1	483.5	318.0	595.6	416.7
Total	28.4	34.5	...	47945.6	33049.8	...	...
Total (excl. Iraq)	29.8	34.7	49.0	41682.0	25952.2	-39376.1	19767.6
Gulf Co-operation Council (GCC)b/	24.6	29.4	45.6	30395.5	18352.8	-48209.3	14456.9
Non-oil (diversified) economiesc/	56.9	59.4	59.4	10637.4	7196.9	8027.1	4787.5
Least developed countriesd/	53.9	55.5	57.3	649.1	405.5	806.1	523.2

Source: E/ESCWA/DPD/87/16, Appendix Table A-1.
a/ Measured in current prices. The corresponding figure for 1979-81 was 38.6 per cent.
b/ Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.
c/ Egypt, Jordan, Lebanon and Syrian Arab Republic.
d/ Democratic Yemen and Yemen.

Table II-3. Composition and Growth of Services Output in Western Asia by Major Sub-sectors, 1976-1984
(Three-year averages)

	Percentage Share			Indices (1976 -1978= 100)	
	1976-1978	1979-1981	1982-1984	1979-1981	1982-1984
ESCWA region, excl. Iraq					
Utilities	1.0	1.0	1.2	144	200
Construction	25.5	23.7	19.5	128	127
Wholesale and retail trade, restaurants and hotels	22.2	22.2	21.8	138	163
Transport, storage and communication	11.1	11.2	11.7	139	175
Financing, insurance, real estate and business services	15.5	15.3	16.5	136	176
Community, social and personal services	24.6	26.5	29.3	148	197
Total	100.0	100.0	100.0	124	149
ESCWA region, incl. Iraq					
Utilities	1.1	1.1	...	142	...
Construction	25.2	24.2	...	137	...
Wholesale and retail trade, restaurants and hotels	21.6	21.6	...	143	...
Transport, storage and communication	11.7	11.7	...	143	...
Financing, insurance, real estate and business services	15.2	14.7	...	138	...
Community, social and personal services	25.2	26.7	...	152	...
Total	100.0	100.0		143	

Source: E/ESCWA/DPD/87/16, Appendix Table A-1.

3. Geographical distribution of services production

About 70 per cent of all value added in the service sector of Western Asia[1/] in 1982-1984 originated in the GCC countries; the balance, except for a small fraction, coming from the non-oil (diversified) economies. At the country level, the largest contribution has come from Saudi Arabia whose share in total value added in the service sector of the region (excluding Iraq) as a whole averaged about 45 per cent in 1982-1984, followed by Egypt (15 per cent) and the United Arab Emirates (11 per cent).

The relative importance of individual countries as producers of services would differ significantly when the size of population is taken into consideration. The smaller Gulf countries emerge as the main producers of services; Egypt, and the two Yemens, occupying the end of the scale. With some exceptions, the overall picture generally holds for the main service industries.

4. Employment and productivity in services

Though scanty, and not up-to-date, information available on the distribution of the economically-active population shows that services are by far the major source of employment in the region as a whole (see Table II-4). This is especially evident in the smaller Gulf countries. It is only in Egypt and the two Yemens that the contribution of services to employment is below that of agriculture, especially in Yemen; but in all these countries, it is far greater than that of industry.

The provision of community, social and personal services (including producers of government services; producers of private non-profit services to households; and domestic services to households) explains between 35 per cent and 58 per cent of total employment in the service sector, making it the largest single employer. Construction is also a significant employer in most countries attaining in some cases levels exceeding 30 per cent of the total. Similarly, trade and related activities employ another important segment of the working population in all countries, varying between 13 per cent and 29 per cent.

The assertion frequently made that productivity levels in services are lower than in manufacturing is generally borne out by the ratios relating productivity in services to that in manufacturing (see Table II-5). Egypt and the Syrian Arab Republic aside, these ratios vary between a low 0.23 in the United Arab Emirates and a high 0.64 in Iraq. In the case of the Syrian Arab Republic the ratio is inflated by the inclusion of mining and quarrying which is reported together with manufacturing in that country's national accounts statistics. While in Egypt, the apparent explanation is to be found in the low overall productivity of the manufacturing sector.

1/ Excluding Iraq for which comparable data were available only up to 1981. Iraq produced, on average, 13.5 per cent of total value added in the service sector of the region in 1979-1981.

Table II-4. Employment[a] in Primary Economic Activities in the ESCWA Region

(Per cent of total)

Country	Date	Agriculture	Industry b/	Services
Bahrain	1979	3.1	12.0	83.1
Democratic Yemen	1973	49.1	4.9	40.5
Egypt	1979	41.8	16.2	40.3
Iraq	1977	30.9	10.5	56.7
Jordan	1979	11.4	9.4	79.2
Kuwait	1980	1.9	9.7	86.9
Lebanon	1975	17.0	18.2	64.3
Syrian Arab Republic	1979	32.8	16.0	51.2
United Arab Emirates	1980	4.6	8.4	86.7
Yemen	1975	73.6	3.1	20.9

Source: ILO, Yearbook of Labour Statistics (various issues); and United Arab Emirates, Population Census, 1980, Part II (in Arabic).

a/ Economically active population [excluding persons reported as unemployed] data except for Bahrain, Egypt and Syrian Arab Republic where the data relate to employment.

b/ Manufacturing plus mining and quarrying.

Details may not add up to total because of the inclusion of persons in categories not adequately defined.

Table II-5. Services/Manufacturing Labour Productivity[a] Ratios in Selected ESCWA Countries

	Date	Ratio
Bahrain	1979	0.43
Egypt	1979	1.55
Iraq	1977	0.64
Jordan	1979	0.56
Kuwait	1980	0.41
Syrian Arab Republic[b]	1979	1.11
United Arab Emirates	1980	0.23

Source: Based on: ESCWA, National Accounts Studies Bulletin, No. 8; ILO, Yearbook of Labour Statistics, 1984; and, United Arab Emirates, Population Census, 1980, Part II.

a/ Value added at constant 1980 dollars divided by number of persons employed/economically active.

b/ Includes mining and quarrying.

III. INTERNATIONAL TRANSACTIONS IN SERVICES

A. Conceptual Issues and Problems of Measurement

1. Reporting of international services transactions

Most countries record their external economic transactions in accordance with the principles and guidelines laid down by the International Monetary Fund (IMF) for the compilation of balance of payments statistics.1/ The IMF classification scheme divides the balance of payments into a current account and a capital account. The current account records all transactions that add to or subtract from a country's real resources, and is composed of two major components: merchandise trade and what is commonly referred to as "invisibles", covering transactions that involve neither the exchange of goods nor transactions of a financial nature.

Underlying the IMF balance of payments reporting system is the distinction between "resident" and non-resident" entities, whether individuals, governments, enterprises, institutions or other. The criterion governing the distinction is the location of these entities, or economic agents, as determined by physical presence and lieu of operations, in the case of business enterprises, and by the place of abode and duration of stay, for persons.

Services transactions may be recorded according to the type of transaction involved (for example investment income, consultants' fees and commissions) or according to the nature of the industry involved (for example, transportation, insurance, banking). In some cases (for example, investment income and the category of "other goods, services and income") a distinction is made between transactions involving private and official entities. The IMF balance of payments system combines elements of these reporting schemes.

2. Definition of services in the international context: distinction between trade and transactions in services

Services in the international context comprise a heterogeneous set of activities which have very little in common, other than perhaps their intangible, non-storable and generally non-transportable character. Four main categories of traded services may be distinguished.1/

Services may be provided across national frontiers by "residents" to "non-residents"; i.e., through direct export and import such as air and ocean transport, passenger transport, international reinsurance, motion picture rental, communications and consultancy and engineering services.

1/ International Monetary Fund, Balance of Payments Manual, 4th ed. (Washington, D.C., IMF, 1977).

A second category involves services which are provided within national boundaries to non-residents of which tourism, the provision of airport and seaport services, internal transport of foreign passengers by local airlines, and expenditures abroad by diplomatic missions and military personnel, are among the more prominent examples.

A third category relates to services provided through contractual relationships with independent firms abroad. These may take the form of partnership arrangements, or license or franchise relationships, and may involve the use of a particular company's name or trade mark, and result in a sharing of earnings generated by these firms or an obligation in the form of royalties, fees or some other remuneration.

A fourth category concerns services provided through foreign affiliates. This is the case with services which by their nature are either not transportable and/or face trade-restricting measures such as hotel services, most aspects of commercial banking, and equipment leasing services. Included also are services provided through local agencies established in support of export opportunities such as press agencies (those of newspapers, periodicals and television companies), purchasing offices (for example, airline agencies), supervising offices of construction and engineering firms and representative offices of branches.[2/]

From the distinctions outlined above, four "operational" definitions for the quantification of international transactions in services have been suggested.[3/]

Under the narrow definition coverage is confined to those services which are supplied across an international frontier, i.e., are actually exported or imported, such as shipment and passenger services.

1/ TD/B/941/Rev.1, op.cit., paras. 18-24.

2/ A somewhat different classification identifies five categories of internationally-traded services, namely: (a) services derived from international trade, such as freight, transportation and insurance and related services; (b) location-specific services, such as tourism; (c) location-joining services, such as passenger transportation and communications; (d) "foot-loose" services, such as financial and professional services which can be performed by many people anywhere and which are normally provided in one way or another in all countries; and (e) services that are provided on an intramultinational firm basis and are therefore not traded, strictly speaking (see: A. F. Ewing, "Services Trade and LDC's", Economic Impact, 1986/1, p.34).

3/ TD/B/941/Rev.1, op.cit., paras. 88-95.

The scope of the definition may be extended to include, "non-traded" services, or services consumed by foreigners in the country in question and by residents in foreign countries, other than "official", of which the main examples are expenditures for tourism and port and airport charges. It is important, however, to note that while the extended definition may be identified with private non-factor services in predominantly market-oriented economies, this is not necessarily the case in most developing countries, including those in the ESCWA region, where the public sector is an important economic agent and accounts for a significant portion of services transactions (for example, through ownership of airline companies and management of ports and airports).

The inclusion of government services extends the scope of the definition to encompass all of what is commonly referred to as non-factor services.

A final extension brings in factor services. The term factor services is used in balance of payments analysis to denote almost exclusively the return to capital in the form of direct investment income and portfolio investment and interest received on loans. By the same logic, workers' remittances could be interpreted as a return to the factor labour.[1/]

The argument for extending the scope of the definition to encompass factor income, and hence international transactions, to include workers' remittances derives also from practical considerations. Workers' remittances constitute a major source of foreign exchange earnings in several countries of the region, notably Egypt, Jordan and Yemen. Together with Democratic Yemen and the Syrian Arab Republic, these earnings averaged about $6.50 billion per year in 1982-1984. The group of oil economies, in particular Saudi Arabia and, to a lesser but significant degree, Kuwait, Qatar and Oman - countries for which data were available - recorded substantial payments for the employment of expatriate labour from within as well as from outside the region. Such payments averaged more than $8.47 billion a year in 1982-1984, compared to $7.47 billion paid as investment income to non-residents.

The current proposals for the liberalization of international transactions/trade in services are considered[2/] to be biased in favour of the developed countries in that they stress capital-related services to the neglect of labour-related services in which developing countries have a comparative advantage. Considerations of symmetry and equity, however, argue in favour of extending the right of establishment to labour services,

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1/ Expatriate labour may be conceived of as falling under distinct categories, the importation of which could theoretically and in practice be organized by specialized labour exporting/importing firms, or made part of a package deal involving goods and capital, as in for example construction, thus blurring the distinction between investment income flows, payments for services rendered, and workers' remittances.

2/ See: D. Nayyar, "International Trade in Services: Implications for Developing Countries", Export-Import Bank of India, Annual Lecture, 1986, pp.23 and 25.

including the movement of labour across national frontiers. Workers' remittances are the most obvious, and perhaps the most important, single indicator in this respect.

Strictly speaking, international trade in service may be confined to exchanges between residents and non-residents involving services that are actually exchanged across national borders, and services which are consumed by residents of one country in another country, or what is commonly referred to as non-factor services (including "shipping", "other transportation", "travel", "official services" and "other privates services"). Factor services (as defined by the IMF to include investment income involve financial flows between residents and non-residents and, as such, do not constitute trade in services1/. However, these flows together with workers' remittances (reported separately by the IMF) arise in connection with services provided by capital and labour and, as such, constitute a dominant element in international services transactions. Put differently, trade in services cannot be dissociated from the international movement of factors of production - seen as the main mechanism for penetrating foreign services markets2/ and involving investment and movement of persons across frontiers. Given the fact that investment in foreign markets is needed to overcome the non-tradeability of many and important services, international transactions in services are probably greatly under-estimated by non-factor service returns in the balance of payments.3/

Hence, the statistical analysis below deals with international transactions in services, distinguishing between non-factor and factor services.

3. Statistical limitations

The analysis of balance of payments flows in the ESCWA region is generally hampered by the overall inadequate state of information arising from discontinuation/interruptions in published statistical series, lack of comparability over time and between countries, due to changes or differences in nomenclatures, and insufficient detail in presentation. Among the more important gaps is the absence, for several years now, of published information on balance of payments flows for Iraq and Lebanon.

A common and major drawback of balance of payments data pertaining to the region, and which they share with other countries, is the absence of information on the geographical distribution of services transactions.

1/ UNCTAD, TD/B/1008/Rev.1, op.cit., p. XXI and Annex I, pp. 7-8; also, GATT, Services: Summary of Information Made Available by Relevant International Organizations (MDF/17, September 1985): Secretariat of the Latin American System (SELA) Report: "Services and the Development Process of Latin American" (SP/RCLA/SERV/DT/No. 2 Rev.1), pp. 76-7.

2/ TD/B/1100/2, op.cit., paras. 33-34.

3/ Gibbs, op.cit., p.210.

Such statistical deficiencies reduce the number of countries that could be covered and detract from the quality of the analysis. The main problems encountered include: lack of reliable information and high degree of aggregation especially in connection with the entry "other services"; discontinuation of reporting separately some important transactions such as travel and/or their inclusion under unrelated categories such as "other goods, services and income" in the case of Saudi Arabia; lack of uniformity in reporting making it necessary to group items which otherwise it would have been more useful to consider separately such as "passenger services" in Bahrain and Saudi Arabia; and, gaps in reporting in some years.

The shortcomings outlined above in available statistics on the region's international transactions in services have important analytical implications. First, an assessment involving all the ESCWA countries is not possible as information relating to Iraq, Lebanon, Qatar and the United Arab Emirates had to be left out from virtually all the tabulations. Second, inconsistencies in the coverage of the main services categories considered over time and between countries distort the analysis of both the structure of trade in services and the relative importance of individual countries in this trade. Third, failure by some countries to report separately on some significant items, such as passenger services has meant their suppression under other items rendering comparisons and summation impossible.

B. Overall Performance

Transactions in services assume an important position in current international transactions of Western Asia (see Table III-1). On the credit side, the share of services in the total stood at about two-fifths, on average, in 1984-1986, compared to only one-fifth in each of the periods 1980-1982 and 1976-1978. Essentially, this reflected the dramatic decline in the value of merchandise exports as earnings from services recorded only a modest improvement in the first six years of the current decade.

On the debit side, the share of services in the region's current transactions changed little since the start of the decade, remaining between 47 per cent and 49 per cent of the total. This, however, represented a significant (8 percentage points) rise relative to the situation in 1976-1978. Thus, outlays on services have come to equal or exceed slightly the value of merchandise imports in the 1980s, compared to only three-quarters in 1976-1978.

It is also worth noting that factor services have been much more significant than non-factor services on the credit side of the current account; the opposite being true for non-factor services on the debit side. In 1984-1986, for example, factor services credits were more than two and a half times those of non-factor services, while outlays on the latter were almost three times those on the former.

In the global context, the ESCWA region has been more important as importer of services than as exporter (see Table III-2). Its share in world debits on account of international transactions in services (factor and non-factor services) averaged 10.9 per cent in 1984-1986, or 2.4 per cent

Table III-1. ESCWA Region:1/ Major Components of the Current Account (percentage share; three-year average)

	1976-1978		1980-1982		1984-1986	
	Credit	Debit	Credit	Debit	Credit	Debit
Merchandise	76.5	52.7	76.5	47.6	56.7	47.5
Non-factor services	7.3	26.4	6.4	33.8	11.4	36.5
Factor services2/	13.2	13.4	14.3	13.6	29.0	12.4
Official transfers	2.7	7.5	2.1	5.0	2.6	3.6
Total current transactions3/	100.0	100.0	100.0	100.0	100.0	100.0

For source and notes, see Annex Tables A.1 and A-2.

1/ Covers Bahrain, Democratic Yemen, Egypt, Jordan, Kuwait, Oman, Saudi Arabia, the Syrian Arab Republic and Yemen.

2/ Includes workers' remittances.

3/ Includes private transfers other than workers' remittances.

Details may not add up to totals because of rounding and minor statistical discrepancies.

lower than in 1980-1982. As exporter of services, however, the share of the region was virtually unchanged at around 9 per cent during the interval.

The region, however, is considerably more important as importer of non-factor services than as supplier; the contrary being true for factor services. It accounted for about 2.5 per cent and 6.5 per cent of world credits on account of non-factor services and factor services, respectively with virtually no change recorded over the first six years of the decade. The region's contribution has been minimal in the case of direct investment income (0.1 per cent) and shipment (0.4-0.7 per cent) and significant in private transfers (12-13 per cent) with earnings from other investment and transportation occupying intermediate positions.

As importers of non-factor services, the countries of Western Asia were responsible for 8 per cent of the world total, on average, in 1984-1986, compared to 9 per cent in 1980-1982. The significantly above average share of the category "other official services" reflects the huge outlays reported by Saudi Arabia under this entry (see Annex Table A-2). It is also worth noting the decline, from 9.5 per cent to 7.8 per cent, in the share of shipment which probably reflects the decline in the volume of imports into the region observed in the course of the decade.

Table III-2. Position of Western Asia[1/] in Global Services Transactions
(per cent; period average)

	Western Asia		World[2/] Million US$	
	1980-1982	1984-1986	1980-1982	1984-1986
A. Credit				
1. Non-Factor services	2.5	2.4	412711	428494
Shipment	0.4	0.7	60377	56091
Other transportation	4.9	4.0	76847	73281
Travel	2.7	1.3	98055	105826
Other official services	1.4	1.4	33259	36084
Other private services	2.3	3.2	144173	157211
2. Factor services	6.6	6.5	374892	400802
Direct investment income	0.1	0.1	50562	54305
Other investment income	6.8	6.7	278455	300174
Private transfers	12.3	13.0	45875	46322
B. Debit				
3. Non-factor services	9.0	8.0	464000	464443
Shipment	9.5	7.8	92416	86662
Other transportation	2.0	1.5	81584	75190
Travel	4.1	2.7	97660	101481
Other official services	35.8	30.6	52026	49817
Other private services	6.4	7.4	140314	151292
4. Factor services	4.3	2.9	396412	430467
Direct investment income	15.2	5.1	52282	45183
Other investment income	0.7	0.7	303723	347315
Private transfers	17.1	20.6	40407	37967

For source and notes, see Annex Tables A-1 and A-2; and IMF, Balance of Payments Yearbook (Vols. 38 & 39, Part II).

Note: For the anomalies in some of the reported entries relating to Western Asia, especially travel and other private services, refer to footnotes to Annex Tables A-1 and A-2.

1/ Comprises 9 (out of 13) countries for which data were reported in 1986, namely: Bahrain, Democratic Yemen, Egypt, Jordan, Kuwait, Oman, Saudi Arabia, the Syrian Arab Republic and Yemen.

2/ Includes developed countries, centrally-planned economies, developing countries and transactions of international organizations.

As to factor services, the countries of Western Asia have accounted for a declining share of world debit transactions amounting to less than 3 per cent in 1984-1986. And whereas the share of direct investment income payments fell from an average of about 15 per cent in 1980-1982 to only 5 per cent in 1984-1986, that of private transfers rose from 17 per cent to over one-fifth of the total.

The ESCWA region experienced a marked deceleration in its international transactions in services during the 1980s, especially after 1983 (see Table III-3). On the credit side, non-factor services grew by a mere 0.4 per cent per annum on average, between 1980 and 1986 and factor services by 4.3 per cent, compared to annual rates of expansion of 21 per cent and 31 per cent, respectively, between 1976 and 1980. For non-factor services, the slowdown was more pronounced in GCC countries and the least developed members - both groups recording average negative growth rates - relative to the situation in the non-oil diversified economies which recorded a positive rate of growth, albeit a much smaller one compared to the expansion achieved in the second part of the 1970s.

As to earnings from factor services, only the GCC countries appear to have maintained a positive rate of growth averaging 7.2 per cent per annum during 1980-1986, or slightly less than one-fourth the rate realized between 1976 and 1980. Both the least developed members and the non-oil diversified economies, especially the former group, experienced unfavourable trends resulting in average annual rates of decline of 11 per cent for the former and 1.1 per cent for the latter, compared to annual rates of growth of 21 per cent and 37 per cent, respectively, in the earlier period. In both groups, this reflected essentially the trend in workers' remittances; earnings from, the relatively unimportant, other factor transactions also declined.

The reversal of earlier trends has been even more striking on the debit side. Average annual growth rates as high as 33 per cent for non-factor services and 26 per cent for factor services during the period 1976-1980 gave way to declines at annual rates of 2.2 per cent and 4.2 per cent, respectively, in the first six years of the 1980s. With respect to non-factor services, payments on account of shipment, other transportation and official services were considerably compressed during this period; their combined value falling from $25.8 billion in 1980 to $18.0 billion in 1986 (see Annex Table A-2). The cut in factor services payments reflected the sharp reduction in reported direct investment income outflows, from $7.2 billion in 1980 to $1.1 billion in 1986; the region's outlays in connection with workers' remittances and other investment income recorded higher amounts rising from $5.9 billion to $7.8 billion in the first instance, and from $1.7 billion to $2.5 billion, in the second over the same interval.

The compression of expenditures on both factor and non-factor services reflected the trend in the four GCC countries examined where payments on account of factor services declined from $13.6 billion in 1980 to $9.5 billion in 1986, and from $30.8 billion to $25.7 billion in the case of non-factor

Table III-3. ESCWA Region: Aggregate Transactions in Services, Selected Periods

	Annual rate of variation (per cent)						Value (million US$)					
	1976-1980	1980-1986	1983-1984	1984-1985	1985-1986	1986-1987a/	1976	1980	1985	1986	1986a/	1987a/
A. Credit												
ESCWA Region												
Non-factor services	21.0	0.4	2.5	-2.8	-9.1	6.2	4359.8	9296.5	10468.8	9512.0	5574.9	5923.0
Factor services	31.0	4.3	-6.8	-10.5	3.5	-14.4	6775.7	19940.8	24784.1	25661.1	21854.1	18710.1
Gulf Co-operation Council (GCC)												
Non-factor services	21.0	-3.3	8.8	-6.8	-20.6	2.3	2481.5	5287.4	5433.3	4315.5	4302.6	4401.9
Factor services	30.5	7.2	-10.2	-7.6	10.2	-15.4	4587.9	13373.5	18414.8	20300.5	19667.0	16636.3
Non-oil diversified economies												
Non-factor services	20.5	4.8	-3.8	3.0	4.3	22.2	1788.5	3757.7	4774.3	4981.8	1057.6	1292.9
Factor services	37.0	-1.1	6.6	-17.5	-12.4	-22.5	1348.4	4749.7	5092.2	4458.3	1284.8	995.6
Least developed countries												
Non-factor services	30.0	-2.6	-7.4	-15.1	-17.8	6.3	89.8	252.4	261.2	214.7	214.7	228.2
Factor services	21.0	-11.0	-9.6	-19.5	-29.3	19.5	839.4	1817.3	1277.1	902.3	902.3	1078.2
B. Debit												
ESCWA Region												
Non-factor services	33.0	-2.2	-8.1	-15.5	-16.1	-2.7	11347.5	35279.2	36816.9	30878.2	26512.8	25794.9
Factor services	26.0	-4.2	5.7	-9.3	-8.9	-1.8	5880.5	14760.2	12555.2	11433.1	8648.1	8492.4
Gulf Co-operation Council (GCC)												
Non-factor services	35.0	-3.0	-10.2	-17.9	-17.1	-4.0	9330.4	30817.1	31033.4	25720.1	25019.8	24024.8
Factor services	26.0	-5.7	6.4	-11.7	-10.7	-1.4	5438.1	13608.3	10684.2	9543.8	8022.3	7911.9
Non-oil diversified economies												
Non-factor services	21.0	3.3	11.5	0.2	-9.9	12.7	1866.2	3957.0	5344.7	4815.9	1150.8	1296.7
Factor services	29.5	11.7	5.0	7.7	-0.5	-5.3	318.9	901.0	1760.2	1751.7	488.2	462.4
Least developed countries												
Non-factor services	35.0	-6.3	-10.7	-5.5	-22.0	38.3	150.9	505.1	438.8	342.2	342.2	473.4
Factor services	19.4	-9.5	-32.4	-2.2	24.2	-14.2	123.5	250.9	110.8	137.6	137.6	118.1

For source and notes, see Annex Tables A-1 and A-2.

a/ Excluding Oman, Egypt and Syrian Arab Republic for which data were not available for 1987.

services. In relative terms, the least developed countries appear to have suffered most. In contrast, the three non-oil diversified economies as a group experienced positive rates of growth, albeit much below those recorded between 1976 and 1980.

Available data for 1987 show that the overall trends noted above continued to prevail in general.

C. Structure

The region's international transactions in services have been dominated by factor services on the credit side and by non-factor services on the debit side (see Table III-4). Factor services accounted for 73 per cent of total receipts in 1986, compared to 68.2 per cent in 1980, whereas the contribution of non-factor services to total expenditures rose from 70.5 per cent to 73 per cent during the same interval. Moreover, factor services have been net foreign exchange earners in the region as a whole - producing a surplus of $5.18 billion in 1980 and $14.23 billion in 1986 - whereas non-factor services have been heavy users of foreign exchange - resulting in an overall deficit of $25.98 billion in 1980 and $21.37 billion in 1986.

The significance of factor services on the credit side derives mainly from other (than direct) investment income flows and, to a lesser but significant extent, workers' remittances, as reported income from direct investment has remained of marginal importance. The share of other investment income flows - representing essentially earnings on foreign investment by the Saudi Monetary Agency (SAMA), earnings by Kuwait on government and foreign assets and earning of financial and other Kuwaiti private institutions, and earnings by Bahrain including those accruing to deposit money banks - rose from 47.9 per cent in 1980 to 59 per cent in 1986 of all services transactions credits, making a net contribution to earnings of $12.33 billion and $18.24 billion, respectively. Over the same duration, the share of workers' remittances retreated from 20.2 per cent to 13.8 per cent, turning the small surplus in 1980 ($46 million) into a substantial deficit of about $2.96 billion in 1986.

On the debit side, the relative importance of factor services diminished from 29.5 per cent in 1980 to 27 per cent in 1986, or from $14.76 billion to $11.43 billion in absolute terms. Payments on this account have traditionally arisen mainly in connection with workers' remittances and direct investment income. But whereas the latter's share dropped from 14.4 per cent to 2.6 per cent, the share of workers' remittances rose from 11.7 per cent to 18.4 per cent over the same period.1/ The sharp fall in direct investment income payments has been reflected in the drop in the deficit on this item from $7.19 billion in 1980 to $1.05 billion in 1986.

1/ The decline in the relative importance of payments on account of direct investment was associated with a drop in absolute value from $7.22 billion in 1980 to $1.11 billion in 1986, whereas workers' remittances rose from $5.86 billion to $7.80 billion.

Table III-4. ESCWA Region[1/]: Structure of International Transactions in Services and Contribution to Foreign Exchange Earnings and Uses

(per cent; millions of United States dollars)

	Structure (per cent)				Net earnings/uses ($ million)	
	Credit		Debit			
	1980	1986	1980	1986	1980	1986
Non-factor services	31.8	27.0	70.5	73.0	-25983	-21366
Shipment	0.6	1.3	15.0	12.2	-7317	-4701
Other transportation	13.4	8.2	3.5	2.4	2138	1854
Travel	10.8	3.5	9.4	6.4	-1528	-1477
Other official goods and services	1.6	1.2	33.1	27.9	-16099	-11364
Other private goods and services[2/]	5.4	12.7	9.5	24.0	-3178	-5678
Factor services	68.2	73.0	29.5	27.0	5181	14228
Direct investment income	0.1	0.2	14.4	2.6	-7192	-1052
Other investment income	47.9	59.0	3.4	6.0	12327	18240
Workers' remittances	20.2	13.8	11.7	18.4	46	-2960
Total	100.0	100.0	100.0	100.0	-20802	-7138

For source and notes, see Annex Tables A-1 and A-2.
Note: The information contained in this table should be interpreted taking into consideration the numerous footnotes to Annex Tables A-1 and A-2.

1/ Covers Bahrain, Democratic Yemen, Egypt, Jordan, Kuwait, Oman, Saudi Arabia, Syrian Arab Republic and Yemen.
2/ For Saudi Arabia, as of 1982, the credit entry includes amounts appropriate to "passenger services", "travel" and "other foreign official". On the debit side it covers expenditures abroad by Trans-Arabian Pipeline System (TAPLINE) and by the Arabian American Oil Company (ARAMCO), and from 1982 includes also amounts appropriate to "other transportation" and "travel".

The importance of factor services on the credit side derives mainly from the key position these occupy in the services transactions of the GCC countries. Factor services in the four countries reported in Annex Table A-3 accounted for over four-fifths of their combined earnings from international transactions in services in 1986. These earnings have come almost entirely from other investment income as no receipts were reported from direct investment income and workers' remittances were negligible.

In relative terms, factor services have been equally important as foreign exchange earners for the least developed member countries, mainly on account of workers' remittances. Earnings from factor services in the case of the three non-oil diversified economies examined also dominate receipts, accounting for a significantly lower share - 47.2 per cent in 1986 - of the group's total receipts from services transactions.

The small decline in the relative importance of factor services in the region's outlays on services followed developments in the GCC countries where the share of factor services dropped from 30.6 per cent in 1980 to 27.1 per cent in 1986, associated with a decline in the absolute level of expenditures from $13.61 billion to $9.54 billion. Over the same period, the share of factor services in total expenditures on services transactions rose from 18.5 per cent to 26.7 per cent in the non-oil diversified economies but dropped from 33.2 per cent to 28.7 per cent in the two least developed members.

Non-factor services have been much more significant in relative terms as earners of foreign exchange in the non-oil diversified economies relative to the situation in the GCC countries and the least developed countries (see Annex Table A-3), accounting for more than half of the total. In the three subgroups, however, non-factor services dominate by far outlays, being highest in relative terms in the non-oil diversified economies; the relative shares in the other groups being not much different.

Transportation services, other than shipment, and travel have been the leading foreign exchange earners among non-factor services in the region. Reported earnings from shipping have been insignificant. The category of other private services has been, however, growing in importance. On the debit side, other official services and shipping remain the leading items. Of the major categories of non-factor services, only other transportation produces as surplus; the other categories yielding large - especially official services - deficits.

D. Position of Individual Countries

The countries of Western Asia exhibit striking differences with respect to their relative importance in the region's international transactions in services. On the credit side, Saudi Arabia has been contributing close to two-fifths of the total of the nine countries reported in Table III-5, followed by Kuwait (around one-fourth) and Egypt (18 per cent). The dominance of Saudi Arabia is much more striking on the debit side with a share of over three-fifths in 1986 (three-fourths in 1980). As with receipts, the second and third place are occupied by Kuwait and Egypt, respectively, though their shares are much lower.

Considering earnings from non-factor services, the share of Saudi Arabia recorded a decline from 41.1 per cent in 1980 to 28.1 per cent in 1986, while that of Egypt rose from 25.7 per cent to 35.3 per cent over the same interval. Also, the share of earnings by Bahrain and the Syrian Arab Republic rose from 2.5 per cent to 6.1 per cent in the first instance, and from 3.9 per cent to 6 per cent in the second. However, the share of Kuwait dropped by about 2 percentage points, to 11 per cent, and that of Jordan remained around 11 per cent of the total.

It is clear from Annex Table A-4 that Kuwait is by far the major foreign exchange earner from the provision of shipping services in the region. These earnings have also been significant in Jordan. Egypt's earnings from other transportation have also increased considerably during the 1980s; Suez Canal dues rose from $934 million in 1985 to $1098 million in 1986.

Two-thirds of outlays on non-factor services came from Saudi Arabia in 1986, compared to three-fourths in 1980. At the same time, the share of Kuwait rose from 8.7 per cent to 12.5 per cent, and that of Egypt from 6.6 per cent to 9.8 per cent.

The distribution of outlays on shipment and other transportation is more evenly spread with relatively important contributions coming from Kuwait, Egypt and Jordan, in addition to Saudi Arabia (see Annex Table A-4). The bulk of expenditures on travel has traditionally come from Saudi Arabia and Kuwait. The overwhelming position of Saudi Arabia is also evident in expenditures on other official and private services, but notably the former category.

Earnings from factor services have gone to the extent of 44 per cent to Saudi Arabia in 1986 (37.3 per cent in 1980). Over the same period, Kuwait's share rose from 27.5 per cent to 31.6 per cent of the total, while that of Egypt, the Syrian Arab Republic and Yemen declined from 14.9 per cent to 11.4 per cent, from 4.3 per cent to 1.1 per cent and from 7.2 per cent to 2.3 per cent, respectively.1/ These declines reflected in the case of Yemen and the Syrian Arab Republic reduced shares in receipts from workers' remittances the total of which was about $1.1 billion lower in 1986 relative to 1980. In the case of Egypt, reported workers' remittances were some $200 million less in 1986 compared to 1980.

1/ Investment income, by far the largest component of earnings from factor services, went mainly to Saudi Arabia and Kuwait, the shares of which in investment (other than direct) amounted to 54 per cent and 39 per cent of the total in 1986, respectively. Similarly, 51.7 per cent of workers' remittances in 1986 accrued to Egypt, followed by Jordan and Yemen with shares of 24.5 per cent and 11.7 per cent, respectively.

Table III-5. Relative Position of Individual ESCWA Countries in Aggregate International Services Transactions
(per cent)

	Bahrain	Democratic Yemen	Egypt	Jordan	Kuwait	Oman	Saudi Arabia	Syrian Arab Republic	Yemen	Total (million US$ = 100%)
Total Transactions										
Credit										
1980	1.9	1.6	18.3	6.6	23.0	0.5	38.5	4.2	5.4	29237
1986	2.4	1.1	17.8	6.6	26.0	1.8	39.6	2.4	2.0	35173
Debit										
1980	2.0	0.3	5.8	2.6	8.8	2.5	75.5	1.2	1.2	50039
1986	2.9	0.4	9.8	3.9	13.1	5.2	62.0	1.9	0.7	42311
Non-factor services										
Credit										
1980	2.5	0.9	25.7	10.8	13.2	0.1	41.1	3.9	1.8	9296
1986	6.1	0.9	35.3	11.1	11.1	0.1	28.1	6.0	1.3	9512
Debit										
1980	1.3	0.4	6.6	3.1	8.7	1.5	75.8	1.5	1.1	35279
1986	1.2	0.6	9.8	3.7	12.5	2.3	67.3	2.1	0.6	30878
Factor services										
Credit										
1980	1.6	1.9	14.9	4.6	27.5	0.7	37.3	4.3	7.2	19941
1986	1.1	1.2	11.4	5.1	31.6	2.5	44.0	1.1	2.3	25661
Debit										
1980	3.5	0.1	4.0	1.6	9.0	5.1	74.6	0.5	1.6	14760
1986	7.6	0.1	9.8	4.3	14.7	13.3	47.8	1.2	1.0	11433

For source and notes, see Annex Tables A-1 and A-2.
Notes: The information contained in this table should be interpreted taking into consideration the numerous footnotes to Annex Tables A-1 and A-2.
... = Not available.
\- = Nil or negligible.

The share of Saudi Arabia in payments on account of factor services dropped from 74.6 per cent in 1980 to 47.8 per cent in 1986 while those of Bahrain, Egypt, Jordan, Kuwait and Oman rose by between 4 percentage points to 8 percentage points.

To an important extent, these shifts reflected a sharp decline in direct investment income payments by Saudi Arabia, from $6916 million in 1980 to $659 million in 1986, and a rise in those of Oman from $285 million to $432 million over the same period. At the same time, the share of Saudi Arabia in payments on account of workers' remittances[1/] dropped from 69.9 per cent to 61.6 per cent, while those of Kuwait and Bahrain rose by 4.6 percentage points and 4.2 percentage points, respectively.

E. International Transactions in Services, Savings and Resource Availability

International transactions in services have been a major influence determining savings and resource availability in Western Asia. Factor services generally make a positive contribution to savings in Western Asia, whereas non-factor services are a net user.

During 1982-1984, net earnings from factor services represented, on average, 22 per cent of aggregate gross national savings of the nine countries depicted in Table III-6. This is explained by "other investment income" flows as both direct investment income and workers' remittances produced net outflows. Factor services accounted for significantly different proportions of savings in the three country groupings examined, varying from about 17 per cent in the GCC countries to 32 per cent and 245 per cent in the non-oil (diversified) and least developed countries, respectively. Aside from Oman, where outflows equivalent to 32 per cent of savings were recorded, factor services were least important in relative terms in Bahrain and the Syrian Arab Republic.

The deficit on non-factor services stood at over 55 per cent of the combined gross national savings of the nine countries considered (see Table III-6). Essentially, this reflected the situation in the GCC countries where net payments on this account averaged some 69 per cent of savings.

Transactions involving non-factor services are, as Table III-7 shows, an important element in the totality of real resources available. For the nine countries reviewed, non-factor services imports averaged 15.5 per cent of resources available in 1982-1984. Their share was, at 19.1 per cent, above average in the four GCC countries for which the relevant information was available, but significantly lower in the non-oil (diversified) and least developed economies, being 6.6 per cent and 7 per cent, respectively. At the country level, the largest contribution to resources was in Saudi Arabia where imports of non-factor services averaged 22.3 per cent of resources, followed by Jordan (16.9 per cent), Kuwait (11.2 per cent) and Democratic Yemen (9.9 per cent).

1/ Saudi Arabia alone reported workers' remittances in 1986 that were $2.2 billion larger than those recorded by Bahrain, Oman and Kuwait together.

Table III-6. International Services Transactions and Savings in Western Asia, 1982-1984 (average)
(Per cent)

	Gross National Savings ($ million)	Factor Services	Non-Factor Services
Total (A+B+C)	61456	22.0	-55.4
A. Gulf Cooperation Council (GCC)	48353	16.7	-69.4
Bahrain	2772	3.5	-9.9
Kuwait	10016	44.0	-27.0
Oman	2680	-31.9	-25.1
Saudi Arabia	32885	13.5	-90.9
B. Non-oil (diversified) economies	12497	31.7	-2.6
Egypt	7601	35.8	1.4
Jordan	1171	81.9	-14.2
Syrian Arab Republic	3725	7.6	-7.1
C. Least developed countries	606	245.0	-32.4
Democratic Yemen	154	313.0	-64.3
Yemen	452	221.9	-21.6

Source: Based on data from: United Nations Economic and Social Commission for Western Asia, National Accounts Studies, Bulletin No. 8 (Baghdad, October 1986); and E/ESCWA/DPD/87/16.

Table III-7. Non-factor services in Total Resources in Western Asia, 1982-1984 (Average)

	$ million		Per cent
	(1) Total Available Resources[a/]	(2) Non-factor services Imports	(2)E(1)
Total (A+B+C)	292213	45165	15.5
A. Gulf Cooperation Council (GCC)	207712	39583	19.1
Bahrain	8321	555	6.7
Kuwait	32129	3610	11.2
Oman	11350	687	6.1
Saudi Arabia	155912	34731	22.3
B. Non-oil (diversified) economies	77194	5074	6.6
Egypt	46338	2864	6.2
Jordan	7651	1290	16.9
Syrian Arab Republic	23205	920	4.0
C. Least developed countries	7307	508	7.0
Democratic Yemen	1951	194	9.9
Yemen	5356	314	5.9

Source: As in Table A-4.

a/ Defined as the sum of expenditures on GDP plus imports of goods and non-factor services; obtained from national accounts data.

IV. SERVICES IN THE REGIONAL CONTEXT

A. Overall Contribution to Development

Though statistical evidence to substantiate the importance of services in the regional context is lacking, there is agreement that intraregional services flows have had far-reaching implications for the overall development process in both exporting and importing countries. The regional market, moreover, is expected, to remain for a long time to come the target of efforts to develop and export "new" services.

Perhaps the most important, and also the most elusive to quantify, impact of services in the regional context has come from "labour-embodied" services associated with the movement of persons and "extracted" in the receiving country. Such services have spanned virtually all aspects of economic and social life ranging from highly paid and sophisticated occupations, such as medical care and consulting and engineering services, to lesser and manual jobs at the lower end of the pay scale. In return, the labour-providing countries benefited from the opening up of more remunerative employment opportunities for their manpower, and from the associated income and foreign exchange flows which have exerted a profound influence on the course and pace of their development.

An important service with a regional dimension is related to the movement of goods, including oil, in transit. A significant portion of merchandise trade entering or leaving the region and of intraregional trade is in the form of transit trade. Also, transit services have been associated with the export of crude oil through pipelines linking the production sites and export terminals on the Mediterranean, and more recently on the Red Sea, and overland. Transit services have benefited the countries of passage by generating income (fees, royalties, etc.) and employment; the countries of destination by reducing the cost of importation and, in some cases, providing the only means of obtaining goods; and the countries of origin by saving on transportation costs and overcoming temporary obstacles to exporting via normal channels.

Services provided from within the region have been an important factor contributing to the improvement of health and educational services in the region as a whole. The presence of high standard health and educational facilities and qualified personnel in some member countries benefited the rest of the region by making services available to nationals of other countries and through movement of personnel to fill in shortages and assist in setting up local facilities, particularly in the field of education.

The regional dimension has also played an important role in the development of tourism. Countries like Lebanon, Egypt and Bahrain have, for generally different reasons, offered a strong attraction to nationals of other member countries. The experience of these countries in the various facets of the business (hotels, restaurants, entertainment) has been helpful in setting up and strengthening the touristic infrastructure in the region as a whole. In this, the "demonstration" effect has played an important role.1/

1/ Witness, for example, the impact of the Baalbeck festivals in Lebanon and the sound and light performances at the foot of the Pyramids in Egypt on other countries.

Consulting and engineering services, supplied from within the region, have been helpful especially to the efforts of the Gulf countries to improve their physical infrastructure. Business partnerships have helped to meet shortages of managerial cadres in several countries where finance was not lacking. Public administration support services, in the form of advisers and consultants, have also been very useful in meeting growing requirements in the area of public administration and in allowing time for the development of indigenous capabilities in several countries.

Services have been the subject of numerous joint ventures with concentration in banking, investment and other financial services followed by transport and communications, tourism and real estate, insurance and reinsurance, consulting and engineering services and petroleum related services; and predominance, in terms of capital, of the public sector. Joint ventures with small capital have usually been private or mixed, while larger ones have been mostly between governments and official entities. The bulk of services joint ventures was established in the three years following the first oil boom in 1973, with another burst of activity between 1979 and 1981 involving some of the larger ventures.

Services have also been the subject of numerous intergovernmental agencies, functional federations, and training institutions, established mainly within the framework of the League of Arab States and the Council of Arab Economic Unity.

At the subregional level, the GCC countries are trying to co-ordinate activities in the field of services through sectoral committees. At the bilateral level, a number of agreements have been concluded relating mainly to air and land transport, transit and tourism.

Notwithstanding numerous bilateral and multilateral agreements to promote regional co-operation in services, there remains a large scope for furthering this process and making it more effective in such areas as education, social security, technology and scientific research, information (press, radio and television), protection of the environment, and data collection, storage and transmission.

B. Balance of Payments Implications of Intraregional Services Transactions

Unlike merchandise trade, recorded information on the geographical distribution of the region's trade in services is totally lacking. Nevertheless, some broad generalizations as to the overall pattern of some major flows are possible, distinguishing between intra and extra regional transactions.

On the credit side, where factor services dominate, the picture is a mixed one. However, it is possible to say that virtually all investment income receipts are generated outside the region, and more precisely in the developed market-economies, where the bulk of investments are held. The opposite is true of earnings by expatriate labour, largely employed in the Gulf area and Iraq but also, though to a much lesser extent, in labour exporting/importing countries such as Jordan. Earnings from shipment services have generally arisen in connection with services provided to countries in the region and involving receipts by national shipping companies (as in Kuwait), or payments for transiting oil through their territories (Jordan, Lebanon and the Syrian Arab Republic). Receipts from the provision of other transportation services derive largely from outside the region as they include Suez Canal dues for the crossing of ships registered mostly under foreign flags. Moreover, transit fees and other benefits accruing to such countries as Jordan, the Syrian Arab Republic and Kuwait, represent earnings from rendering services to other countries in the region. Earnings from travel and passenger services originate in services extended to residents and non-residents, with outlays by the latter probably dominating, especially in the case of travel.

On the debit side, investment income payments are largely incurred in connection with the oil sector and the operations of other foreign firms and can, therefore, be assumed to flow outside the region. Payments for expatriate labour, while predominantly of an intraregional nature, contain a significant portion for services rendered by workers from outside the region.[1/] On the other hand, it may be assumed that the bulk of payments for consultancy and contracting services benefit firms residing outside the region. As to shipment, these represent outlays made in connection with imports which are largely carried by foreign fleets and hence accrue to foreign shipowners. And while intraregional travel is not insignificant, the entry remains heavily weighted by travel abroad.

1/ In 1982-1984, for example, reported payments made by 10 ESCWA countries to expatriate workers averaged $8.47 billion whereas receipts averaged $6.51 billion, implying that the balance accrued to nationals of countries outside the region (see: E/ESCWA/DPD/87/16, p.69).

V. SERVICES IN MULTILATERAL TRADE NEGOTIATIONS

The eighth round of multilateral trade negotiations (the Uruguay Round) - launched by a decision of the GATT Contracting Parties meeting at the Ministerial level in Punta del Este (Uruguay) from 15 to 20 September 1986 - provided, for the first time, for inclusion of trade in services in negotiations. The distinguishing feature of the Uruguay Round may lie in its being a compromise between initially very divergent positions held by developing and developed countries, notably regarding the issue of services.

A. Background for Inclusion of Services in the Uruguay Round and Position of Developing countries

The United States has been behind the proposals that culminated in the inclusion of services in the negotiations. According to the United States perception, negotiations were to be conducted under GATT and, without explicitly defining the activities to be covered, were expected to include commercial activities that are traded internationally on a large scale (such as banking, insurance, telecommunications, data processing), and to exclude the balance of payments accounts covering capital and labour. Central to the objective of the United States of establishing a legal framework of rules and procedures for dealing with internationally-traded services were such concepts as national treatment, transparency and right of commercial presence. The United States aims also included reaching a series of understandings that deal with unique problems affecting trade in individual services sectors, with priority given to an understanding on international information flows; and examining how the concepts of a future understanding dealing with intellectual property issues could apply to services.

The United States initiative stirred up considerable controversy between developing and developed countries that centered mainly on three basic issues: the principle of including services in the negotiations in the first place; the scope of negotiations; and, the negotiating forum and procedure.

1. Extending negotiations to services

The general feeling by developing countries that they will be at a disadvantage in the negotiations on services is probably at the root of their hostile attitude to such negotiations. In terms of both economic strength and negotiating capability, these countries are even less equipped to stand up to the developed countries than in negotiations on goods.

The role of services in the development process is not sufficiently understood yet to enable developing countries to come to the negotiating table equipped with a "service policy" that is as much a prerequisite for effective participation in negotiations as a trade policy is in discussions of merchandise issues.[1/] They also feel that they would be at a great disadvantage in the negotiations, in view of the difficulties they are certain to encounter in constituting effective negotiating teams, given the diversity and highly technical nature of the subjects and, hence, the wide range of expertise that would be required.

1/ M. Gibbs, op. cit., p. 217.

Being essentially importers of services that could only hope to expand exports in the long-term, developing countries feared that most of the gains from the liberalization of trade in services would accrue to developed countries in view of the overwhelming comparative advantage they enjoy in activities proposed for negotiation. Attention has also been drawn to the potential risk that liberalization could freeze comparative advantages where they are at the time of negotiations, thus preventing developing countries from realizing ultimately such potential comparative advantage as may exist in the affected sectors.

Developing countries also feared that opening up their markets could only serve the interests of transnational corporations who prefer to see their relations with host developing countries under the clout of multilaterally agreed rules rather than negotiated bilaterally. Dismantling regulations affecting domestic service industries can compromise various national interests (e.g., national security, protection of cultural values and protection of infant industries), thus undermining national sovereignty, increasing dependence and restricting autonomous development. In the event, the result will be tantamount to imposing obligations on developing countries in favour of transnational corporations without offsetting disciplines governing the behaviour of these corporations being accepted by their home countries.1/

Developing countries were also apprehensive that their participation in the negotiations would force upon them a situation whereby they would have to make concessions in services so as to preserve concessions already obtained on goods on a non-reciprocal basis (e.g., under the generalized system of preferences (GSP)), get new concessions, or secure a roll-back of trade-restricting measures (e.g., voluntary export restraints and orderly marketing arrangements) that are in violation of GATT rules to start with.

The theoretical premises on which the United States proposal is presumably predicated - the free trade thesis and its corollary, the principle of comparative advantage - have also been questioned.2/ The application of the theory of comparative advantage to the service sector would seem to ignore, among other things, difference in tradeability between goods and services. Services, being relatively insulated from the effects of international competition were less likely to respond to external

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1/ Ibid., p. 214.

2/ It has been argued that a basic assumption to theories of free trade and free markets, namely, that trade is between independent entities in different countries, is even more of a "myth" today than in 1948 when GATT came into being in view of the ascendency of transnational corporations in international economic relations (C. Raghavan, "the U.S. Drive to Bring Services into GATT: A Rollback of the Third World?", in: Development and Peace, (Vol. 7, No. 2), Autumn 1986, p.25.

developments,[1/] thus preventing comparative advantage from being revealed effectively.[2/]

Another problem stems from the difficulty of determining comparative advantage in different service sectors, especially information-intensive services, and across countries. It could be very misleading to speak of one country as enjoying a comparative advantage in services while another having a comparative advantage in manufactures as it is not possible to aggregate all goods and services in this manner, nor to assume that productivity and hence, comparative advantage, in these sectors is independent of each other; as a matter of fact, increased productivity in manufacturing is seen to be closely related to, and dependent upon, the recent developments in the service sector, notably in the sphere of telematics.[3/].

2. Scope of negotiations

In the initial view of developing countries, negotiations should be confined to trade in non-factor services, whereas developed countries argued for the inclusion also of investment-related issues of trade in services.

The position of developing countries with respect to the inclusion of investment issues in negotiations has been most clearly stated by the developing countries of Latin America.[4/] These countries distinctly called for a separation of discussions on services from those related to international investment flows. While recognizing that the internationalization of services may be linked to the right of establishment of affiliates and subsidiaries in other countries, the developing countries of Latin America opposed the generalization of the argument to the broad and very complex problem of international investment flows. They were apprehensive that any concessions granted in favour of services affiliates and subsidiaries will be used later as a vehicle to extend the scope of application to direct investment in general. These countries wanted to avoid any comprehensive treatment of issues concerning affiliates and subsidiaries and to restrict consideration of this area in multilateral form to cases related to issues bearing on a particular service industry. This would make it possible to find industry - specific solutions limited in their application to the particular needs of that industry.

1/ Gibbs, op.cit., p.204.

2/ UNCTAD, Problems of Protectionism and Structural Adjustment, Part II: Trends in Production and Trade in All Sectors and Their Underlying Factors (TD/B/1081/Part II), 20 January 1986, para. 80.

3/ D. Nayyar, "International Trade in Services: Implications for Developing Countries", Export-Import Bank of India, Annual Lecture: 1986, pp. 14-16.

4/ United Nations Economic Commission for Latin America and the Caribbean (ECLAC), "Initiatives to Liberalize International Flows in Services and Investment, and the Interests of Latin America" (E/CEPAL/SEM.15/R.4), 19 March 1984, in: GATT, Services: Summary of Information Made Available by Relevant International Organizations Secretariat (MDF/17), September 1985, pp.60-64.

The inclusion of investment issues in negotiations was expected to accentuate the bias against developing countries already inherent in the proposed agenda for negotiations. To redress the asymmetries implicit in the proposed agenda and offset the drawbacks inherent in pursuing a multilateral approach on the issue of services which seeks to cover all sectors, developing countries have been urged[1/] to press for action in the areas of labour movement across national boundaries, access to technology and removal of restrictive business practices.

It has been further argued that considerations of symmetry and equity justify extending the scope of negotiations to include labour-related services in which developing countries have a potential or revealed comparative advantage. The right of establishment and national treatment should be extended to labour services making temporary migration possible. Developing countries should also seek to obtain - in exchange of granting access to their markets to foreign producers of services - access to the technology and information systems of developed countries, as well as improved access to their goods.[2/] Developing countries should also press for the institution of an international framework that would ensure that the practices of services transnational corporations are consistent with the development objectives of developing countries, paying special attention to restrictive business practices.

3. GATT as a negotiation forum

From the outset, developing countries were strongly opposed to the conduct of negotiations on services within the GATT framework on the ground that the issue lies outside its jurisdiction. It has also been suggested that the legitimacy of GATT to deal with services issues has been fostered by adding the world "trade" before "services" and that issues of investment and establishment would have been excluded from the GATT debate had they been presented in proper perspective, being issues that fall within the sovereign rights of countries.[3/]

Negotiations in GATT were also opposed[4/] on the ground that they would create a presumption in favour of extending the GATT principles to the area of services, thus putting developing countries on the defensive to justify departures from such basic GATT principles as the "most-favoured nation" (MFN) clause and "national treatment" concept, when these countries had never accepted such obligations in the first place. Also, considering the issue in GATT could imply a link between concessions in goods and services.

1/ Nayyar, op.cit., pp. 23-28.

2/ It has also been argued that a comprehensive framework for international co-operation in services should also include specific goals for training and research, external financing and technical assistance, as well as agreed principles on migration. See: UNCTAD, Services and the Development Process (TD/B/1008/Rev.1), para. 272.

3/ Raghavan, op.cit., p. 26.

4/ Gibbs, op.cit., pp. 213-215.

It is not also clear how the basic tenets of the GATT, namely, the principles of MFN, national treatment and reciprocity can be extended to the treatment of foreign enterprises and persons engaged in service activities subject to national regulations. There is the risk that as concessions might become possible across the board and involve unrelated sectors,[1/] so also the risk of retaliation and coercion. Furthermore, reciprocity of concessions under GATT rules is inseparable from the concept or identification of the "country of origin". This could pose serious conceptual and practical difficulties in view of the fact that services are not only produced and consumed simultaneously and generally defy border measurement, but they are to an ever growing extent supplied by transnational corporations the nationality of which may not always be easy to establish.

Developing countries were also opposed to the negotiation of common principles or a general framework applicable to services as a whole advocating in the initial stage, to follow a sectoral approach[2/]. Such an approach could reveal common ground for an eventual negotiation of a set of multilateral and generally applicable standards involving several sectors, and may be expected to help improve the limited statistical base and find solutions to conceptual and definitional problems that arise in the measurement of internationally-traded services.

Sector-specific arrangements were also to be preferred[3/] because, on the one hand, there exists for some sectors an infrastructure of organizations where the relevant issues may be considered and, on the other hand, such an approach would make it possible to reflect the needs and characteristics of particular sectors. More important, perhaps, is that under a sector-specific approach it would be feasible to exchange concessions in a meaningful manner.

B. Interest of Western Asia in Services Negotiations and Ability to Influence Outcome

Of the thirteen ESCWA countries only two, namely, Egypt and Kuwait, are members of GATT. In itself, this limited membership could mean that the region will not take much interest in the negotiations, and that any impact it may have on the outcome is likely to be minimal. But this should not necessarily be the case if the two ESCWA countries members of GATT were able to stimulate interest in and mobilize support of other countries for the negotiations and evolving a regional position. Kuwait is a member of the GCC and is representative of the situation of the services-importing countries, while Egypt may be considered representative of the services-exporting member countries.

1/ As for example the exchange of landing rights in the aviation sector for the right of opening a branch in the banking sector; or the relaxation of restrictions on data flows in exchange for a similar treatment regarding the entry and provision of professional services in the medical, legal or educational field (see: Nayyar, op.cit., p.19).

2/ See: ECLAC, op.cit., (E/CEPAL/SEM.15/R.4), pp. 62-64.

3/ Nayyar, op.cit., pp. 24 and 27.

The importance of the service sector in the economies of the region should in principle induce sufficient concern in the course and outcome of the negotiations. However, the countries of Western Asia control very little of world production and trade in services in general, and especially in information/technology-intensive services.

Being essentially importers of services, the basic interests of the countries of western Asia lie in having access to services on conditions and at a cost that respond to their concerns and development priorities. In particular, there is need to upgrade indigenous information systems and gain access to world information systems. They need also to be able to reduce their dependence through import substitution as in insurance and shipping. Above all, they need to ensure that the activities of transnational corporations in the field of services do not stifle their infant industries and/or run against other national interests, while at the same time promoting the transfer of appropriate technology and training of national cadres.

As exporters of services, the countries of Western Asia have an interest in joining other developing countries to eliminate discrimination against their exports of services and in seeking preferential treatment in the markets of developed-market economies.

In a global context of negotiations on services, the regions interests could perhaps be better served if they are considered within the wider perspective of developing countries. Not only there is a considerable commonality of concerns with other developing countries, but it is also clear that the countries of the region cannot be expected to go far on their own in realizing their objectives, given their small "weight" in world production and trade in services, their limited presence in GATT and their generally limited negotiating experience and capabilities.

C. Progress in the Negotiations

Following the launching of negotiations, the Group of Negotiations on Services - established by the Ministerial Declaration on the Uruguay Round - focused on defining a programme for the initial phase of negotiations and on identifying elements which should be addressed in conformity with the negotiating objectives as set out in the Uruguay Declaration. The Group adopted a programme of negotiations covering the following five elements:1/

- Definitional and statistical issues of relevance to trade in services;
- Broad concepts on which principles and rules for trade in services, including possible disciplines for individual sectors, might be based;
- Coverage of the multilateral framework for trade in services;
- Existing international disciplines and arrangements; and,

1/ GATT, GATT Newsletter, Focus (43), January-February 1987, pp. 7-8.

- Measures and practices contributing to or limiting the expansion of trade in services, including specifically any barriers perceived by individual participants, to which the conditions of transparency and progressive liberalization might be applicable.

Highlights of the discussions conducted by the Group on these items and during the mid-term review of the Uruguay Round held in Montreal in December 1988 are reproduced, with some modifications, below from the final Report of the Intergovernmental Meeting on Trade in Services and Development in the ESCWA Region which was held in Baghdad from 17-19 January 1989[1/].

In connection with the first item, i.e., definitional and statistical issues, developing countries stressed that these had to be resolved before the type of transactions to be included within the framework of the agreement was determined, especially in terms of the movement of factor services and the right of establishment in the service-importing country. The developed countries favoured instead the adoption of the broadest possible definition of trade in services in an attempt to ensure that the framework of the agreement covered a wide scope of transactions.

With respect to the second item, the developed countries presented a number of proposals concerning the inclusion in the agreement of concepts and principles that would ensure the greatest possible measure of liberalization of trade in services. These proposals included the principles of national treatment, the granting of most-favoured nations status, non-discrimination, transparency, progressive liberalization and other principles that served the interests of service-exporting developed countries. Developing countries were of the opinion that these concepts and principles had to be considered in terms of the extent to which they could contribute to realize the basic goals of the negotiations, especially economic development, and not in terms of their success in liberalizing trade in services. The developing countries presented a number of concepts and principles which, from their point of view, met the objective of economic development. These included the economic sovereignty of states; national treatment; the granting of preferential status to developing countries and access to the markets of developed countries; facilitate the transfer of technology; regulate the practices of service-producing enterprises; and, protect infant industries. Most of these concepts met with strong opposition from the developed countries.

With regard to the third item on the agenda of the Group on Negotiations on Services, which dealt with the sectoral coverage of the targeted international agreement, the developed countries avoided any detailed discussions on this phase of the negotiations, while developing countries stressed the importance of including those services sectors which related to exports, such as employment and labour-intensive services. This stance was rejected by the developed countries, as their interests focused on other services that are based on modern technology and capital.

1/ ESCWA, Final Report: Intergovernmental Meeting on Trade in Services and Development in the ESCWA Region (E/ESCWA/DPD/IG.1/10/Rev.1), paras. 54-59. See also: GATT, News of the Uruguay Round of Multilateral Trade Negotiations (NUR 023), 14 December 1988, pp. 40-43.

The last item was barely discussed by the Group, since no agreement had been reached on other issues that formed the basis of the negotiations, namely on the definition of trade in services and on the sectors to be covered.

The negotiations continued within the framework of the Group on Negotiations on services until preparations began for the Ministerial Meeting of the Trade Negotiations Committee that was to conduct a mid-term review of the Uruguay Round in Montreal in December 1988. The United States, members of the European Community and a number of other developed countries indicated that this was an opportune moment to arrive at some conclusions for the Ministers to adopt during the meeting in order to give a new thrust to the negotiations. Proposals in this respect centered around the agreement of the Ministers on some of the principles to be included in the international agreement, such as national treatment and progressive liberalization, transparency, access to markets and the granting of most-favoured nation status. The developing countries were of the opinion that it was too early for Ministers to commit themselves to any of the principles contained in the targeted international agreement, especially in view of the absence of agreement on a definition of services to identify the transactions to be governed by the agreement. Moreover, as no understanding had been reached on the sectors to be covered, they considered that it was inappropriate to reach an understanding with regard to any of the principles before the implications of their application to various transactions and sectors had been studied.

The Ministerial Meeting in Montreal reached an understanding which involved certain conciliatory solutions with regard to the above-mentioned divergent viewpoints and included a number of positive developments from the point of view of developing countries, including the following:

- The importance of pursuing efforts to reach an understanding on the definition of trade in services;

- The need to reach an early accord on the sectoral coverage under the multilateral framework with the consideration that this coverage should permit a balance of interests for all participants, that sectors of export interest to developing countries should be included, that certain sectors could be excluded in whole or in part for certain overriding considerations, and that the framework should provide for the broadest coverage of sectors of interest to all participants.

- The Ministers agreed that before the concepts, principles and rules which comprise a multilateral framework for trade in services are finally agreed, these concepts, principles and rules will have to be examined with regard to their applicability and the implications of their application to individual sectors and the type of transactions to be covered by the multilateral framework.

- The Ministers outlined a number of concepts, principles and rules that were considered relevant to the negotiations aiming at the elaboration of a multilateral framework of principles and rules for trade in services. From the point of view of developing countries, this constituted an improvement on the initial request of the industrialized countries that the Ministers should reach a definite agreement with regard to these principles as these would form the basis of the agreement.

- The proposed principles offered a number of important concessions to developing countries including recognition that progressive liberalization of trade in services must take due account of national policy objectives, the level of development of individual countries and the provision of appropriate flexibility to enable developing countries to proceed in liberalizing trade in services in line with their development situation. The principles also recognize the need to provide for increasing the participation of developing countries in world trade and for the expansion of their service exports through effective market access in favour of their services exports. The right of developing countries to introduce new regulations that are consistent with commitments under the framework was also recognized.

The text adopted by the Ministers at the conclusion of the Meeting of the Trade Negotiations Committee in Montreal (5-9 December 1988) called upon the Group on Negotiation on Services to "endeavour, by the end of 1989, to assemble the necessary elements for a draft which would permit negotiations to take place for the completion of all parts of the multilateral framework and its entry into force by the end of the Uruguay Round".1/

The GATT Trade Negotiating Committee, meeting at the level of high officials in Geneva between 5-8 April 1989, agreed to a compromise mid-term package of decisions, thus completing the work began by the Ministers at their meeting in Montreal in December 1988 and clearing the way for the negotiations to go ahead. During the Montreal Meeting, it should be recalled, accords reached on 11 areas of world trade were frozen until the impasse could be resolved on four other areas, namely: agricultural supports, textiles and clothing, intellectual property and safeguards or escape clauses against a sudden surge of imports. These accords provide the framework for the final phase of negotiations under the Uruguay Round which is scheduled to conclude at the end of 1990.

1/ GATT, News of the Uruguay Round of Multilateral Trade Negotiations, p.43.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

A. Summary and Conclusions

1. Services in domestic economic activity in Western Asia

The definition of services in the domestic context is far from being a settled issue. Disagreement centers on whether utilities, government services and construction should be included or not. In the present paper, these have been included along with the "hard-core" services, namely, trade, finance, transport, storage and communication. Current practices of recording services transactions may considerably under-report the size of the service sector as a result of the incorporation of important service activities within goods-producing operations, and by failure to record transactions in the so-called "informal" sector which is of considerable importance in developing countries.

The service sector has been assuming increasing importance in Western Asia; its share in aggregate GDP rising from an average of about 30 per cent in 1976-1978 to 35 per cent in 1979-1981, and further to 49 per cent in 1982-1984. The improvement between 1976 and 1981 occurred against a rapidly rising GDP, while in the subsequent period the continued expansion of services was associated with a sharp contraction in the contribution of other activities, thus helping to limit the fall in GDP. This, however, should not be construed as a reflection of the dynamism and productivity of the service sector, which is heavily weighed by government services, trade and finance activities that are generally characterized by low productivity levels in developing countries. The region is still to enter in a significant manner fields considered to be at the core of the so-called high technology industries, such as informatics.

In terms of value added, community, social and personal services (producers of government services, producers of private non-profit services to households, and domestic services to households) constitute the leading service activity in the region. Their value added almost doubled raising their share in the total from an average of about 25 per cent in 1976-1978 to 29 per cent in 1982-1984. Over the same interval, the contribution of construction receded from 26 per cent to 20 per cent as value added began to fall after 1981.

About 70 per cent of all value added in the service sector of Western Asia in 1982-1984 (excluding Iraq) originated in the GCC countries. At the country level, the largest contribution has come from Saudi Arabia whose share averaged about 45 per cent, followed by Egypt, the United Arab Emirates, the Syrian Arab Republic and Kuwait with shares of 15 per cent, 11 per cent, 9 per cent and 7 per cent, respectively.

On a per capita basis, the smaller Gulf countries emerge as the main producers of services; Egypt and the two Yemens occupying the end of the scale. With some exceptions, the overall picture generally holds for the main service industries.

Though scanty and not up-to-date, information available on the distribution of the economically-active population shows that services are by far the major source of employment in the region as a whole. This is especially evident in the smaller Gulf countries. Of the ten countries for which data were available, it is only in Egypt and the two Yemens that the contribution of services to employment has been below that of agriculture, especially in Yemen; but in all these countries, it was far greater than that of industry.

Intraregional services flows have had far-reaching implications for the overall development process in both the exporting and importing countries. The most important, and also the most elusive to quantify, impact of services in the regional context has perhaps come from "labour-embodied" services associated with the movement of persons and "extracted" in the receiving country. These services have spanned virtually all aspects of economic and social life. The regional market, moreover, is expected to remain for a long time to come the target of efforts to develop and export "new" services.

Notwithstanding numerous bilateral and multilateral agreements to promote regional co-operation in services, there remains a large scope for furthering this process in such areas as health and educational services, social security; technology and scientific research; information (press, radio and television); environment protection; and, data collection, storage and transmission.

2. International Transactions of Western Asia in Services

Definition of services in the international context

The issue of defining services in the international context has gained tremendous importance since the question of including services in the current round of multilateral trade negotiations was first mooted at the beginning of the 1980s, given the divergent views on the subject held by developing and developed countries.

The most commonly used definition of services has been that followed by the International Monetary Fund (IMF) in compiling and presenting balance of payments data. In addition to what is referred to as non-factor services (i.e., shipment, other transportation, travel and other private and official services), the IMF definition includes investment income which is a return to the factor capital but excludes workers' remittances, which is a return to the factor labour.

In a strict sense, international trade in services may be confined to exchanges between residents and non-residents involving services that are actually traded across national borders and services which are consumed by residents of one country in another, i.e., non-factor services. The exclusion of factor services (investment income and workers' remittances), however, would distort the true dimension of services in the international context in which such services are a dominant element.

Given the importance of factor services to the ESCWA region, the broader transactions concept, involving both non-factor and factor services, was considered more relevant for the present purpose.

The balance of payments reporting of international transactions in services by the ESCWA member countries is deficient in several important respects. First, both Iraq and Lebanon have not published any balance of payments information for several years now. Second, Qatar and the United Arab Emirates report only aggregate flows that in the case of services are not helpful. Third, a major drawback, which the countries of the region share with countries elsewhere, is the absence of information on the geographical distribution of services transactions. Such information, at least for basic flows, could be useful in the formulation of regional policies and in promoting co-operation. Other common drawbacks include the aggregation of services with merchandise trade and failure to distinguish between goods and services - related foreign direct investment. Fourth, the reporting of main service entries in the balance of payments suffer from a large number of defects, including: high degree of aggregation especially in connection with the entry of "other services"; discontinuation of reporting separately some important transactions such as travel in the case of Saudi Arabia; lack of uniformity among countries in reporting making it necessary to group together items which would have been more useful to report separately; and, gaps in reporting in some years.

Overall performance and position of services in the current account

Of the major components of the current account, merchandise trade and factor services have been net foreign exchange earners, while official transfers and, especially, non-factor services have been users. On the credit side, the share of services in total current transactions of the nine countries for which data were available (viz., Bahrain, Democratic Yemen, Egypt, Jordan, Kuwait, Oman, Saudi Arabia, the Syrian Arab Republic and Yemen) stood at about two-fifths, on average, in 1984-1986, compared to only one-fifth in each of the periods 1980-1982 and 1976-1978. Essentially, this reflected the dramatic decline in the value of merchandise exports as earnings from services recorded only a modest improvement during the first six years of the 1980s.

On the debit side, the share of services changed little since the start of the decade, remaining between 47 per cent and 49 per cent of total current transactions. This, however, represented a significant (8 percentage points) rise relative to the situation in 1976-1978. Thus, outlays on services came to equal or exceed slightly the value of merchandise imports in the 1980s, whereas they constituted only three-quarters of imports in 1976-1978.

Factor services have been much more significant than non-factor services on the credit side of the current account; the opposite being true for non-factor services on the debit side. In 1984-1986, for example, factor services credits were more than two and a half times those of non-factor services, while outlays on the latter were almost three times those on the former.

The ESCWA region experienced a marked deceleration in its international transactions in services in the 1980s, especially after 1983. On the credit side, non-factor services grew by a mere 0.4 per cent per annum, on average, between 1980 and 1986, and factor services by 4.3 per cent, compared to annual rates of expansion of 21 per cent and 31 per cent, respectively, between 1976 and 1980. Only the GCC countries maintained a positive rate of growth in earnings from factor services. Both the least developed members and the non-oil diversified economies experienced unfavourable trends resulting in average annual rates of decline of 11 per cent for the former and 1.1 per cent for the latter, compared to annual growth rates of 21 per cent and 37 per cent, respectively, in the earlier period. In both groups, this reflected essentially the trend in workers' remittances.

The reversal of earlier trends has been even more striking on the debit side. Average annual growth rates as high as 33 per cent for non-factor services, and 26 per cent for factor services, during 1976-1980 gave way to declines at annual rates of 2.2 per cent and 4.2 per cent, respectively, over the first six years of the 1980s. Payments on account of shipment, other transportation and official services were considerably compressed; their combined value dropping from $25.8 billion in 1980 to $18.0 billion in 1986. The cut in factor services payments reflected a sharp reduction in reported direct investment income outflows, from $7.2 billion in 1980 to $1.1 billion in 1986, with workers' remittances and other investment income payments recording increases over the same interval.

<u>Composition of international transactions in services and contribution to foreign exchange earnings and uses</u>

The region's international transactions in services have been dominated by factor services on the credit side and non-factor services on the debit side, accounting for over 70 per cent of the respective totals in 1986. Moreover, factor services have been net foreign exchange earners on the whole - producing a surplus of $5.18 billion in 1980 and $14.23 billion in 1986 - whereas non-factor services have been heavy users of foreign exchange - resulting in overall deficits of $25.98 billion and $21.37 billion, respectively.

The significance of factor services on the credit side derives mainly from other (than direct) investment income flows and, to a lesser but significant extent, workers' remittances, as reported income from direct investment has remained of marginal importance. The share of other investment income rose from 47.9 per cent in 1980 to 59 per cent in 1986 of all services transactions credits, making a net contribution to earnings of $12.33 billion and $18.24 billion, respectively. Over the same interval, the share of workers' remittances retreated from 20.2 per cent to 13.8 per cent, turning the small surplus in 1980 ($46 million) into a substantial deficit of about $2.96 billion in 1986.

The importance of factor services on the credit side derives largely from the key position these occupy in the services transactions of the GCC countries where they accounted for over four-fifths of the combined earnings of the four countries for which data were available in 1986. In relative terms factor services have been equally important as foreign exchange earners for the least developed member countries, mainly on account of workers' remittances. Factor services dominate receipts from services in the non-oil diversified economies, though accounting for a significantly lower share of the total.

Non-factor services have been much more significant in relative terms as generators of foreign exchange in the non-oil diversified economies, relative to the situation in the GCC countries and the least developed members, accounting for more than half of the total. In the three subgroups, however, non-factor services dominate by far outlays.

Transportation services, other than shipment, and travel have been the leading foreign exchange generators among non-factor services. On the debit side, other official services and shipment remain the leading items. Of the major categories of non-factor services, and other transportation produces a surplus; the other categories - especially official services - yielding large deficits.

Saudi Arabia assumes a dominant role in the region's services transactions. On the credit side, it was responsible for close to two-fifths of all transactions reported in 1986 by the nine countries examined, followed by Kuwait (around one-fourth) and Egypt (18 per cent). Saudi Arabia's contribution is much more striking on the debt side with a share of over three-fifths (three-fourths in 1980). And, as with receipts, the second and third place are occupied by Kuwait and Egypt.

Kuwait has been by far the major foreign exchange earner from the provision of shipping services in the region. Such earnings have also been significant in Jordan and the Syrian Arab Republic on account of oil pipeline and other transit dues.

The distribution of outlays on shipment and other transportation has been more evenly spread with important contributions coming from Kuwait, Egypt and Jordan, in addition to Saudi Arabia. The bulk of expenditures on travel has traditionally come from Saudi Arabia and Kuwait. The overwhelming position of Saudi Arabia is also evident in outlays on official and private services, but notably the former.

Taking into consideration differences in population, the relative importance of individual countries as users and suppliers of traded services alters significantly. Based on 1979-1981 averages, Kuwait, followed by Bahrain and Saudi Arabia, emerge as the leading earners with respect to both factor and non-factor services. Jordan ranks fourth with respect to total and non-factor services, while Egypt occupies ninth and fifth place, respectively. For travel, the first three positions go to Bahrain, Kuwait and Jordan, in that order, with Bahrain also ranking first with respect to earnings from other private services.

On the expenditure side, Saudi Arabia retains the lead followed by Kuwait, Bahrain and Oman, in that order with respect to total and non-factor services. The ranking changes somewhat with respect to factor services with Bahrain assuming the lead followed by Saudi Arabia, Kuwait and Oman. Of interest to note also is the advanced rank of Bahrain with respect to outlays on shipment and travel, that of Kuwait in connection with transportation and travel and Saudi Arabia in relation to other services.

3. Services, savings and resource availability

Factor services generally make a positive contribution to overall savings in Western Asia, whereas non-factor services are net foreign exchange users.

During 1982-1984, net earnings from factor services represented, on average, 22 per cent of gross national savings of the nine countries examined. This is explained by "other investment income" flows as both direct investment income and workers' remittances produced net outflows. This contribution varied from 17 per cent in the four GCC countries (Bahrain, Kuwait, Oman and Saudi Arabia) to 32 per cent and 245 per cent in the three non-oil diversified economies (Egypt, Jordan, the Syrian Arab Republic) and the two least developed countries (Democratic Yemen and Yemen), respectively. In the GCC, the positive impact came from other investment income whereas in the remaining two groups it came essentially from workers' remittances.

Imports of non-factor services averaged over 15 per cent of total resources (19 per cent in the GCC, and about 7 per cent in the other two groupings). At the country level, the largest contribution was in Saudi Arabia (22 per cent), followed by Jordan (17 per cent), Kuwait (11 per cent) and Democratic Yemen (10 per cent).

4. Services negotiations and Western Asia

Geography and history, the general openness of its economies and long standing commercial and cultural links with the outside world endow the region with considerable potential to develop further its service industries and trade. Diversifying into services is crucial, especially for those member countries which are characterized by a paucity of natural resources and whose exports of agricultural products and manufactured goods are often constrained by influences lying beyond their control but, who, at the same time, possess considerable potential in terms of human skills and the appropriate economic environment and infrastructure needed for the development and export of services.

In a global context of negotiations on services, the region's interests could perhaps be better served if they are considered within the wider perspective of developing countries. Not only there is a considerable commonality of concerns with other developing countries, but it is also clear that the countries of the region cannot be expected to go far on their own in realizing their objectives, given their small "weight" in world production and trade in services, their limited presence in GATT and their generally limited negotiating experience and capabilities.

Furthermore, and given the large inter-country variations in the volume of services produced and traded, the effective presence of the region in negotiations cannot be dissociated from that of the main producing and trading countries. Evolving a regional position could also be helped if the two ESCWA countries (Egypt and Kuwait) members of GATT can stimulate interest in and mobilize the support of other member countries for the negotiations; Kuwait being a member of the GCC and representative of the situation in the service-importing countries, while Egypt may be considered as representative of the exporting side.

Being essentially an importer of services, the region's basic interests lie in having access to such services on conditions that respond to the national concerns and development priorities of its member countries. In particular, there is need to upgrade existing information systems and gain access to world information systems. These countries need also to be able to reduce their dependence through import substitution as in insurance and shipping. Above all, they need to ensure that the activities of transnational corporations in the field of services do not stifle their infant industries and/or run against other national interests, while at the same time promoting the transfer of appropriate technology and training of national cadres.

As exporters of services, the countries of Western Asia have an interest in joining other developing countries to eliminate discrimination, explicit or disguised, against their exports of services and those of developing countries in general, and in seeking preferential treatment in the markets of developed-market economies on a non-reciprocal basis.

The region's exports of services are essentially of the traditional type deriving from geographical (e.g., transit fees and dues from passage of ships through the Suez Canal and pipeline dues from moving oil) and historical (religious and ancient civilizations sites) advantages. However, there is room in some countries for the export of consultancy and engineering services, computer programming services and hotel management services which can be obstructed by competition from developed-country suppliers.

B. Recommendations

1. The countries of Western Asia need to develop a better appreciation of the role of services in domestic economic activity and international transactions. This is essential for the formulation of a coherent policy geared to improving the contribution of services to growth and development and for meeting various, and sometimes conflicting, goals such as growth, employment, foreign exchange generation, national sovereignty, protection of the consumer and improvement of the standards of living, and conservation of cultural values.

2. The overall state of information on production and trade in services in Western Asia is highly inadequate for purposes of economic analysis and policy formulation. It falls upon member countries statistical departments/offices and central banks, as well as concerned regional and international organizations, to address this issue on an urgent basis.

3. Given the crucial role of information and communication in the modern service economy - being key services affecting performance and competitiveness of all other sectors - the countries of Western Asia will have to upgrade their information and communication systems to improve their competitiveness in the face of mounting pressures from transnational services corporations. Upgrading the information systems through the development of data bases would seem to call for regional, subregional arrangements, and co-operation between countries with similar interests.

4. Since most of the technologies used in the modern service sector are embodied in people, the development of indigenous modern services in Western Asia is conditional on the development of human skills in a wide area of occupations including scientific and technical personnel, as well as economists, statisticians, accountants, lawyers and managers. In this context, the "brain-drain" problem assumes added significance. The development of services in the long-term will require policies aimed at upgrading the domestic technical and educational infrastructures.

5. The efficiency of the service sector is closely related to the availability of producer services in sufficient quantities and adequate quality. These are essentially "new" services whose development is a prerequisite for the emergence of a modern service sector and include such important services as telematics, accounting, advertising, legal services, quality control and standardization, packaging, storage and handling, management services and maintenance whose inadequacy can create serious bottlenecks in the production and distribution process.

6. The importance of the region for both exporting services and selective import replacement highlights the need for strengthening co-operation among member countries by identifying opportunities for co-operation and mechanisms to bring it about; as well as obstacles to it. The services-exporting members cannot afford to duplicate each other's efforts, while the importers stand to gain a lot from co-ordinating their import-substitution efforts and procurement from the rest of the world.

7. There is need to generate greater awareness and recognition of the significance of services for the region through the organization of meetings of a general or sectoral scope and stimulating research at the country, subregional and regional levels.

8. Since the issues relevant to trade in services concern a large number of ministries and bodies, it is necessary to identify a focal point at the national level for transactions in services to provide cohesion and co-ordination of relevant policies. A similar mechanism is needed at the regional level to assume responsibilities for co-ordinating policies among member states.

9. Understanding the role of services in the domestic economy of Western Asia will be greatly enhanced through improved knowledge of the contribution of the "informal" services sector.

10. National laws and regulations bearing on investment and trade in services should be studied. These assume special significance in the context of international negotiations on services, regional co-operation and efforts to promote trade and investment in services. Moreover, these laws and regulations could have a significant impact on the manner in which these services are supplied at the international level.

ANNEX

STATISTICAL TABLES

Table A-1. Gross Earnings from International Transactions in Services by Major Item and Country in Western Asia

(millions of United States dollars)

		1980	1981	1982	1983	1984	1985	1986	1987
A.	Non-factor services	9296.5	11148.1	10990.5	10510.1	10772.7	10468.8	9512.0	5923.0
	Bahrain	231.0	247.4	452.4	411.9	692.8	633.8	584.9	579.5
	Democratic Yemen	88.4	91.1	96.5	95.7	99.7	102.5	88.8	100.2
	Egypt	2391.0	2538.7	2798.8	3133.2	2988.9	3022.7	3357.6	...
	Jordan	1002.3	1162.8	1111.0	1124.2	1134.6	1162.7	1057.6	1292.9
	Kuwait	1224.6	1391.4	940.6	869.1	888.6	1138.2	1052.3	1056.5
	Oman	9.1	8.2	11.0	15.0	14.4	14.2	12.9	...
	Saudi Arabia	3822.7	5066.9	4891.9	4064.3	4234.2	3647.1	2665.4	2765.9
	Syrian Arab Republic	364.4	431.5	482.5	560.2	511.6	588.9	566.6	...
	Yemen	164.0	210.1	205.8	236.5	207.9	158.7	125.9	128.0
A.1.	Shipment	181.9	325.4	235.6	219.4	317.4	458.4	460.4	421.5
	Bahrain1/	5.6	3.2	...	...	...	...	...	...
	Democratic Yemen	2.1	2.0	3.2	4.1	4.1	2.3	2.6	3.2
	Egypt	...	...	...	...	...	...	...	...
	Jordan2/	13.4	82.9	47.7	61.7	79.1	78.9	58.9	50.7
	Kuwait3/	144.5	182.8	139.1	124.0	213.2	346.2	368.4	359.5
	Oman	...	...	...	...	...	...	...	...
	Saudi Arabia	-	-	-	-	-	-	-	-
	Syrian Arab Republic4/	5.2	38.9	36.4	17.1	10.3	20.3	27.0	...
	Yemen	11.1	15.6	9.2	12.5	10.7	10.7	3.5	8.1
A.2.	Other transportation	3906.9	4161.2	3192.7	3020.6	2952.3	3039.7	2892.0	891.9
	Bahrain5/	73.8	57.4	69.4	55.3	58.2	61.1	64.1	64.1
	Democratic Yemen6/	35.7	36.2	38.8	35.8	44.0	44.8	34.7	37.6
	Egypt7/	1253.4	1588.3	1744.4	1827.0	1795.8	1804.3	1925.2	...
	Jordan	256.7	307.4	333.4	299.7	358.3	395.1	260.8	345.5
	Kuwait	562.2	616.7	542.1	476.8	438.7	495.5	391.8	376.3
	Oman8/	9.1	8.2	11.0	15.0	14.4	14.2	12.9	...
	Saudi Arabia	1650.4	1457.5	326.8	203.1	121.9	85.3	59.8	60.8
	Syrian Arab Republic	57.3	76.6	120.3	103.7	113.8	134.0	133.7	...
	Yemen9/	8.3	12.9	6.5	4.2	7.2	5.4	9.0	7.6
A.3.	Travel	3174.9	3387.2	1356.6	1316.1	1334.6	1495.1	1242.5	828.7
	Bahrain	107.4	115.9	128.5	106.4	127.1	116.3	82.7	93.6
	Democratic Yemen	6.1	6.6	7.3	7.8	7.8	8.1	5.8	5.8
	Egypt	592.2	417.4	345.6	285.4	328.0	416.3	280.4	...
	Jordan	520.7	547.7	520.5	504.4	450.8	517.9	532.4	580.3
	Kuwait	377.4	451.6	100.5	79.1	54.3	103.6	85.6	100.9
	Oman	...	...	...	...	...	...	...	...
	Saudi Arabia10/	1343.2	1573.0	...	...	...	...	...	...
	Syrian Arab Republic	156.2	186.3	182.2	197.8	217.3	232.5	208.8	...
	Yemen	71.7	88.7	72.0	135.2	149.3	100.4	46.8	48.1

Table A-1. Gross Earnings (cont'd.)

		1980	1981	1982	1983	1984	1985	1986	1987
A.4.	Other official goods and services	464.6	494.5	392.0	593.2	527.9	508.0	438.3	263.1
	Bahrain11/	8.2	12.7	...	...	...	...	...	...
	Democratic Yemen	12.5	14.1	11.0	11.2	10.8	11.7	8.4	11.6
	Egypt12/	71.6	107.3	101.6	177.4	156.8	105.6	46.9	...
	Jordan13/	28.5	35.4	29.3	22.3	20.4	7.9	7.7	11.9
	Kuwait14/	126.2	133.2	149.0	189.2	182.4	192.9	206.5	215.9
	Oman	-	-	-	-	-	-	-	-
	Saudi Arabia15/	87.2	106.1	...	...	...	...	...	...
	Syrian Arab Republic16/	113.2	82.5	99.4	175.3	142.5	171.6	143.1	...
	Yemen17/	17.2	3.2	1.7	17.8	15.0	18.3	25.7	23.7
A.5.	Other private goods and services	1568.2	2779.8	5813.6	5360.8	5640.5	5967.6	4478.8	3517.8
	Bahrain18/	36.0	58.2	254.5	250.2	507.5	456.4	438.1	421.8
	Democratic Yemen	31.0	32.2	36.2	36.8	33.0	35.6	37.3	42.0
	Egypt	473.8	425.7	607.2	843.4	708.3	696.5	1105.1	...
	Jordan	183.0	189.4	180.1	236.1	226.0	162.9	197.8	304.5
	Kuwait19/	14.3	7.1	9.9	-	-	-	-	3.9
	Oman	...	...	...	...	...	...	...	...
	Saudi Arabia20/	741.9	1930.3	4565.1	3861.2	4112.3	3561.8	2605.6	2705.1
	Syrian Arab Republic	32.5	47.2	44.2	66.3	27.7	30.5	54.0	...
	Yemen	55.7	89.7	116.4	66.8	25.7	23.9	40.9	40.5
B.	Factor services	19940.8	25970.8	27946.1	29720.8	27684.4	24784.1	25661.1	18710.1
	Bahrain	314.0	517.9	489.8	269.2	368.9	312.2	277.9	249.2
	Democratic Yemen	386.7	460.6	535.5	536.5	540.1	451.3	310.1	320.3
	Egypt	2964.9	2582.3	2840.7	4102.8	4484.4	3629.9	2913.0	...
	Jordan	920.6	1233.0	1288.2	1283.1	1336.6	1122.2	1284.8	995.6
	Kuwait	5486.0	8403.9	6689.2	5688.2	5802.6	5279.8	8110.2	5849.9
	Oman	131.4	216.9	360.9	350.6	387.4	405.2	633.5	...
	Saudi Arabia	7442.1	10956.8	14059.6	15868.2	13366.1	12417.6	11278.9	10537.2
	Syrian Arab Republic	864.2	529.5	436.1	403.0	351.5	340.1	260.5	...
	Yemen	1430.6	1069.9	1246.1	1219.2	1046.8	825.8	592.2	757.9
B.1.	Direct investment income	23.4	74.3	75.1	119.7	32.8	70.1	54.0	...
	Bahrain	...	...	...	...	...	...	...	...
	Democratic Yemen	-	-	-	-	-	-	-	-
	Egypt21/	23.4	74.3	75.1	119.7	32.8	70.1	54.0	...
	Jordan	...	...	...	...	...	...	...	...
	Kuwait	-	-	-	-	-	-	-	...
	Oman	...	...	...	...	...	...	...	...
	Saudi Arabia	-	-	-	-	-	-	-	-
	Syrian Arab Republic	...	...	...	...	...	...	...	...
	Yemen	...	...	...	...	...	...	...	...

Table A-1. Gross Earnings (cont'd.)

		1980	1981	1982	1983	1984	1985	1986	1987
B.2.	Other investment income	14011.5	20870.3	22302.4	22742.6	20570.7	18902.6	20764.5	16754.2
	Bahrain 22/	314.0	517.9	489.8	269.2	368.9	312.2	277.9	249.2
	Democratic Yemen	34.7	51.2	61.0	45.7	34.6	22.2	16.0	15.4
	Egypt 23/	246.0	326.6	326.8	317.5	488.9	348.3	353.1	...
	Jordan	126.2	200.5	204.2	173.2	101.0	100.4	99.6	58.4
	Kuwait 24/	5486.0	8403.9	6689.2	5688.2	5802.6	5279.8	8110.2	5849.9
	Oman	96.3	176.8	317.9	306.8	344.4	361.5	594.8	...
	Saudi Arabia 25/	7442.1	10956.8	14059.6	15868.2	13366.1	12417.6	11278.9	10537.2
	Syrian Arab Republic 26/	91.1	93.2	25.4	16.0	29.7	26.4	9.4	...
	Yemen	175.1	143.4	128.5	57.8	34.5	34.2	24.6	44.1
B.3.	Workers' remittances	5905.9	5026.2	5568.6	6858.5	7080.9	5811.4	4842.6	1955.9
	Bahrain	-	-	-	-	-	-	-	-
	Democratic Yemen	352.3	409.4	474.5	490.8	505.5	429.1	294.1	304.9
	Egypt	2695.5	2181.4	2438.8	3665.6	3962.7	3211.5	2505.9	...
	Jordan	794.4	1032.5	1084.0	1109.9	1235.6	1021.8	1185.2	937.2
	Kuwait	-	-	-	-	-	-	-	-
	Oman	35.1	40.1	43.0	43.8	43.0	43.7	38.7	...
	Saudi Arabia	-	-	-	-	-	-	-	-
	Syrian Arab Republic 27/	773.1	436.3	410.7	387.0	321.8	313.7	251.1	...
	Yemen 28/	1255.5	926.5	1117.6	1161.4	1012.3	791.6	567.6	713.8

Source: Based on data from: International Monetary Fund, Balance of Payments Yearbook, 1988.

1/ Freight receipts of Gulf Air.
2/ Includes receipts from pipeline services.
3/ Mainly covers receipts by Kuwaiti shipping companies other than imports.
4/ Includes receipts from pipeline services provided to non-residents. It also includes earnings from other freight services on transit trade provided by resident carriers.
5/ Includes passenger services.
6/ Includes receipts from ships' stores and bunker oil.
7/ Receipts from passenger services are included under "other goods and services".
8/ Covers port dues, value of stevedoring services and demurrage payments.
9/ Includes shipments, bunkers, supplies and earnings of branches of airline companies appropriate to "other goods, services and income".
10/ Includes passenger fees, see also footnote 21/ below.
11/ Receipts from abroad by foreign embassies and their employees.
12/ Covers expenditures in Egypt by the United States Government financed from its holdings of Egyptian pounds and expenditures by other foreign embassies and consulates in Egypt from funds transferred from abroad.
13/ Covers local expenditures by foreign diplomatic missions in Jordan.
14/ Covers estimated expenditures by foreign embassies and international organizations in Kuwait.
15/ Covers estimates of embassy, consular and other expenditures by foreign governments in Saudi Arabia.
16/ Includes data on purchases of foreign exchange from foreign embassies, international agencies in Syria, and United Nations observer forces. Investment income resulting from the Government's participation in Arab enterprises abroad is also included.

Table A-1. Gross Earnings (cont'd.)

17/ Includes visa and passport fees received from non-residents.
18/ Transactions by offshore banking units (OBUs) with residents.
19/ Covers mainly underwriting fees and charges for other financial services.
20/ From 1982, the entry includes amounts appropriate to "passenger services", "travel" and other foreign official.
21/ Mainly covers remittances from abroad by branches of Egypt Air and Egyptian shipping companies.
22/ Includes amounts appropriate to "other direct investment income".
23/ Includes advertising, commissions and professional and technical services appropriate to item "other goods, services and income".
24/ Covers earnings on government foreign assets and estimated earnings of financial and other private institutions.
25/ Mainly covers earnings on foreign investment by Saudi Arabian Monetary Agency (SAMA).
26/ Investment income received from Arab enterprises abroad is included under "other official goods, services and income" and "other goods, services and income".
27/ The entries may be underestimated as workers' remittances are believed to be a principal source of foreign exchange entering the unregulated foreign exchange market.
28/ The entries may include some private capital flows; it also includes contra-entries for goods brought into the country by Yemenis working abroad.

... = Not available.
\- = Nil or negligible.
Details may not add up to totals because of rounding and minor statistical discrepancies.

Table A-2. Gross Payments for International Transactions in Services by Major Item and Country in Western Asia

(millions of United States dollars)

		1980	1981	1982	1983	1984	1985	1986	1987
A.	Non-factor services	35279.2	45545.0	45161.1	47406.6	43584.9	36816.9	30878.2	25794.9
	Bahrain	475.9	610.2	715.3	536.5	551.4	446.2	370.3	416.0
	Democratic Yemen	129.9	148.9	189.7	197.9	197.3	206.4	171.2	202.4
	Egypt	2342.8	2488.0	2726.9	2768.7	3096.7	3190.2	3012.7	...
	Jordan	1093.7	1382.0	1373.5	1163.3	1332.8	1279.2	1150.8	1296.7
	Kuwait	3067.7	2905.5	3490.9	3619.6	3704.3	4075.6	3868.0	4295.5
	Oman	516.6	620.2	701.0	687.3	672.4	689.5	700.3	...
	Saudi Arabia	26756.9	36189.7	34853.6	37257.9	32856.7	25822.1	20781.5	19313.3
	Syrian Arab Republic	520.5	814.8	757.2	853.0	906.2	875.3	652.4	...
	Yemen	375.2	385.7	353.1	322.4	267.1	232.4	171.0	271.0
A.1.	Shipment	7498.5	8930.8	9798.9	9408.4	8646.9	6513.9	5161.6	3792.1
	Bahrain	335.5	395.5	337.3	318.7	347.9	310.6	240.7	269.5
	Democratic Yemen	64.0	70.0	75.5	74.4	83.1	71.2	49.5	47.5
	Egypt	757.5	879.6	858.9	834.9	1028.1	927.0	737.9	...
	Jordan	263.8	347.5	356.7	333.3	305.9	299.2	266.5	295.5
	Kuwait[1]/	925.4	990.5	1166.9	1039.1	972.7	837.7	811.8	746.1
	Oman	196.5	241.7	287.0	261.9	293.2	336.1	253.4	...
	Saudi Arabia	4602.2	5380.5	6199.0	5980.0	5139.4	3258.2	2491.8	2312.0
	Syrian Arab Republic	114.5	386.8	305.8	370.9	334.2	351.3	220.6	...
	Yemen	239.1	238.7	211.8	195.2	142.4	122.6	89.4	121.5
A.2.	Other transportation	1768.9	2071.0	1052.7	1118.3	1122.5	1231.6	1037.6	654.2
	Bahrain[2]/	4.6	3.2	42.1	33.0	25.0	42.2	46.6	57.4
	Democratic Yemen	13.6	14.5	17.1	17.6	17.7	15.9	10.8	13.9
	Egypt	262.9	228.8	267.2	317.5	315.8	350.3	350.8	...
	Jordan	142.8	191.6	270.5	216.3	302.3	307.6	199.0	255.7
	Kuwait	285.0	265.3	347.8	412.6	347.5	412.2	330.9	327.1
	Oman	...	...	...	...	...	...	...	...
	Saudi Arabia[3]/	1021.7	1286.5	...	...	...	...	...	...
	Syrian Arab Republic	35.1	71.9	98.2	112.2	108.6	97.5	96.2	...
	Yemen[4]/	3.2	9.2	9.8	9.1	5.6	5.9	3.3	0.1
A.3.	Travel	4702.5	4840.2	2365.3	2298.5	2543.4	2899.7	2719.4	3063.1
	Bahrain	110.1	144.1	202.4	104.0	121.3	66.0	58.5	66.0
	Democratic Yemen	8.5	11.9	15.0	15.9	16.2	15.3	9.3	10.1
	Egypt	167.9	174.5	178.8	150.7	146.6	105.6	52.8	...
	Jordan	362.5	367.8	372.8	364.7	381.3	421.9	443.0	444.9
	Kuwait[5]/	1339.3	1097.8	1302.7	1361.9	1540.6	1988.0	1940.4	2504.7
	Oman	31.2	34.2	34.2	43.8	49.2	51.8	46.9	...
	Saudi Arabia[6]/	2453.4	2761.6	...	...	...	...	...	...
	Syrian Arab Republic[7]/	177.0	204.0	196.5	186.0	225.5	198.0	150.2	...
	Yemen	52.6	44.3	62.9	71.5	62.7	53.1	18.3	37.4

Table A-2. Gross Payments (cont'd.)

		1980	1981	1982	1983	1984	1985	1986	1987
A.4.	Other official goods and services	16563.2	20474.0	18837.6	22300.0	20254.7	13638.4	11802.8	10851.1
	Bahrain8/	6.1	3.8	...	...	...	...	...	...
	Democratic Yemen	31.0	41.2	61.0	65.4	60.3	84.6	76.1	110.3
	Egypt9/	157.5	218.1	213.1	258.7	258.3	335.1	274.5	...
	Jordan10/	249.9	419.1	340.6	246.8	304.1	205.9	198.4	208.9
	Kuwait11/	433.4	455.2	569.7	723.7	759.5	771.7	719.2	663.3
	Oman	-	-	-	-	-	-	-	...
	Saudi Arabia12/	15459.6	19183.8	17490.8	20834.8	18656.2	12001.3	10361.4	9831.2
	Syrian Arab Republic13/	186.1	140.3	145.7	156.1	198.9	211.2	153.7	...
	Yemen	39.6	12.5	16.7	14.5	17.4	28.6	19.5	37.4
A.5.	Other private goods and services	4746.1	9229.0	13106.7	12281.4	11017.4	12533.3	10156.8	7434.4
	Bahrain14/	19.6	63.6	133.5	80.8	57.2	27.4	24.5	23.1
	Democratic Yemen	12.8	11.3	21.1	24.6	20.0	19.4	25.5	20.6
	Egypt	997.0	987.0	1208.9	1206.9	1347.9	1472.2	1596.7	...
	Jordan	74.7	56.0	32.9	2.2	39.2	44.6	43.9	91.7
	Kuwait15/	84.6	96.7	103.8	82.3	84.0	66.0	65.7	54.3
	Oman	288.9	344.3	379.8	381.6	330.0	301.6	400.0	...
	Saudi Arabia16/	3220.0	7577.3	11163.8	10443.1	9061.1	10562.6	7928.3	7170.1
	Syrian Arab Republic	7.8	11.8	11.0	27.8	39.0	17.3	31.7	...
	Yemen	40.7	81.0	51.9	32.1	39.0	22.2	40.5	74.6
B.	Factor services	14760.2	19322.1	16571.4	13100.4	13848.9	12555.2	11433.1	8492.4
	Bahrain	516.2	538.1	484.3	359.0	488.1	461.8	873.1	730.2
	Democratic Yemen	10.0	12.0	16.2	18.0	23.0	21.1	17.6	15.9
	Egypt	588.3	897.3	1091.8	1079.6	1091.7	1210.3	1126.2	...
	Jordan	233.3	271.4	289.1	328.4	415.3	425.0	488.2	462.4
	Kuwait	1332.8	1427.9	1629.5	1547.9	1799.9	1708.8	1685.8	1582.7
	Oman	748.4	912.6	1050.0	1212.2	1402.3	1559.6	1521.5	...
	Saudi Arabia	11010.9	14948.2	11556.8	8258.1	8411.2	6954.0	5463.4	5599.0
	Syrian Arab Republic	79.4	110.8	176.6	147.5	127.1	124.9	137.3	...
	Yemen	240.9	203.8	267.1	149.7	90.3	89.7	120.0	102.2
B.1.	Direct investment income	7215.6	9976.7	6621.9	3443.2	3580.4	2253.0	1106.2	664.6
	Bahrain	...	...	...	...	...	...	...	...
	Democratic Yemen	-	-	-	-	-	-	-	-
	Egypt17/	14.3	8.2	9.9	5.3	15.4	14.2	15.2	...
	Jordan	...	...	...	...	...	...	...	...
	Kuwait	-	-	-	-	-	-	-	-
	Oman18/	285.0	369.0	401.9	415.8	437.7	483.3	431.7	...
	Saudi Arabia	6916.3	9599.5	6210.1	3022.1	3127.3	1755.5	659.3	664.6
	Syrian Arab Republic	...	...	...	...	...	...	...	...
	Yemen	...	...	...	...	...	...	...	...

Table A-2. Gross Payments (cont'd.)

		1980	1981	1982	1983	1984	1985	1986	1987
B.2.	Other investment income	1684.3	2144.9	2377.4	2187.0	2500.9	2411.4	2524.6	993.9
	Bahrain 19/	231.0	220.5	172.3	60.6	156.4	59.6	166.7	160.3
	Democratic Yemen	5.0	7.0	11.6	13.6	17.0	17.6	15.8	13.6
	Egypt 20/	574.0	889.1	1081.9	1074.3	1076.3	1196.1	1111.0	...
	Jordan	78.9	114.0	112.0	127.9	161.6	189.1	241.2	278.0
	Kuwait	640.4	739.3	754.0	683.1	837.4	665.0	601.8	481.0
	Oman	66.4	46.0	51.9	60.9	104.6	130.0	199.4	...
	Saudi Arabia	-	-	-	-	-	-	-	-
	Syrian Arab Republic 21/	79.4	110.8	176.6	147.5	127.1	124.9	137.3	...
	Yemen	9.2	18.2	17.1	19.1	20.5	29.1	51.4	61.0
B.3.	Workers' remittances	5860.3	7200.5	7572.1	7470.2	7767.6	7890.8	7802.3	6833.9
	Bahrain	285.2	317.6	322.0	298.4	331.7	402.2	706.4	569.9
	Democratic Yemen	5.0	5.0	4.6	4.4	6.0	3.5	1.8	2.3
	Egypt	-	-	-	-	-	-	-	-
	Jordan	154.4	157.4	177.1	200.5	253.7	235.9	247.0	184.4
	Kuwait	692.4	688.6	875.5	864.8	962.5	1043.8	1084.0	1101.7
	Oman	397.0	497.6	596.2	735.5	860.0	946.3	890.4	...
	Saudi Arabia	4094.6	5348.7	5346.7	5236.0	5283.9	5198.5	4804.1	4934.4
	Syrian Arab Republic	...	...	...	...	...	...	...	...
	Yemen	231.7	185.6	250.0	130.6	69.8	60.6	68.6	41.2

Source: Based on data from IMF, Balance of Payments Yearbook 1988.

1/ Covers freight and insurance services on imports provided by non-residents.
2/ Includes passenger services.
3/ Covers expenditure abroad by Saudi Arabian Airline Corporation, see also footnote 16/ below.
4/ Includes shipments, bunkers, supplies and earnings of branches of airline companies appropriate to "other goods, services and income".
5/ Includes government expenditure on international conferences and scholarship from government budget.
6/ Includes passenger fees, see also footnote 16/ below.
7/ Covers expenditures by Syrian tourists and students. Purchases of foreign exchange for this purpose from outside the banks are believed to be substantial but the amounts are unknown.
8/ Remittances to Bahrain's embassies abroad and their employees.
9/ Mainly covers Egypt's embassy and consular expenditures abroad: the item also includes payments for educational and medical expenses of government officials appropriate to the "travel" item.
10/ Covers expenditures by Jordanian diplomatic missions and other expenditures abroad by the government.
11/ Covers mainly foreign consultants' fees on government projects and expenditures of Kuwaiti embassies abroad.
12/ Covers estimates of embassy, consular and other government expenditures abroad, including those for training programmes and the services of consultancy firms.
13/ Includes data on transfers of foreign exchange to Syrian embassies abroad and to Syrian Government institutions; included also are sales of foreign exchange for use by Syrian forces in Lebanon, and payments of foreign exchange for the salaries of foreign experts working in Syrian public enterprises.
14/ Transactions by offshore banking units (OBUs) with residents.

Table A-2. Gross Payments (cont'd.)

15/ Covers payments by the private sector for financial services.
16/ Covers expenditures abroad by Trans-Arabian Pipeline System (TAPLINE) and by the Arabian American Oil Company (ARAMCO); and from 1982 the entry includes amounts appropriate to "other transportation" and "travel".
17/ Covers profits remitted by direct investment enterprises in Egypt.
18/ Covers remittances of profits by Petroleum Development Oman to its shareholders; estimates of profit of foreign-owned construction enterprises engaged in construction activity in Oman; and estimates of remittances of profits of the Omani enterprises with foreign capital participation.
19/ Includes amounts appropriate to "other direct investment income"
20/ Mainly covers interest paid on foreign loans received mostly by the government.
21/ Investment income paid to Arab enterprises abroad is included under "other official goods, services and income" and "other goods, services and income".

... = Not available.
\- = Nil or negligible.
Details may not add up to total because of rounding and minor statistical discrepancies.

Table A-3. Structure of International Transactions in Services and Contribution to Foreign Exchange Earnings and Uses in Selected Country-Groupings

	Structure (per cent)				Net Earnings/Uses (million US$)	
	Credit		Debit			
	1980	1986	1980	1986	1980	1986
Gulf Co-operation Council (GCC)1/						
Non-Factor Services	28.3	17.5	69.4	72.9	-25529.7	-21404.6
Shipment	0.8	1.5	13.6	10.8	-5909.5	-3429.3
Other transportation	12.3	2.1	3.0	1.1	984.2	151.1
Travel	9.8	0.7	8.9	5.8	-2106.0	-1877.5
Other official goods & services	1.2	0.8	35.8	31.4	-15677.5	-10874.1
Other private goods & services2/	4.2	12.4	8.1	23.9	-2820.9	-5374.8
Factor Services	71.7	82.5	30.6	27.1	-234.8	10756.7
Direct investment income	...	...	16.2	3.1	-7201.3	-1091.0
Other investment income	71.5	82.3	2.1	2.8	12400.6	19293.9
Workers' remittances	0.2	0.2	12.3	21.2	-5434.1	-7446.2
Total Services	100.0	100.0	100.0	100.0	-25764.5	-10647.9
Non-oil diversified economies3/						
Non-Factor Services	44.2	52.8	81.5	73.3	-199.3	165.9
Shipment	0.2	0.9	23.4	18.6	-1117.2	-1139.1
Other transportation	18.4	24.6	9.1	9.8	1126.6	1673.7
Travel	14.9	10.8	14.6	9.8	561.7	375.6
Other official goods & services	2.5	2.1	12.2	9.5	-380.2	-428.9
Other private goods & services	8.1	14.4	22.2	25.5	-390.2	-315.4
Factor Services	55.8	47.2	18.5	26.7	3848.7	2706.6
Direct investment income	0.3	0.6	0.3	0.2	9.1	38.8
Other investment income	5.4	4.9	15.0	22.7	-269.0	-1027.4
Workers' remittances	50.1	41.8	3.2	3.8	4108.6	3695.2
Total Services	100.0	100.0	100.0	100.0	3649.4	2872.5
Least Developed Countries4/						
Non-Factor Services	12.2	19.2	66.8	71.3	-252.7	-127.5
Shipment	0.6	0.6	40.1	28.7	-289.9	-131.8
Other transportation	2.1	3.9	2.2	2.9	27.2	29.6
Travel	3.8	4.7	8.1	5.8	16.7	25.0
Other official goods & services	1.4	3.0	9.3	19.9	-40.9	-61.5
Other private goods & services	4.2	7.0	7.1	13.8	33.2	12.2
Factor Services	87.8	80.8	33.2	28.7	1566.4	764.7
Direct investment income	...	...	...	...	...	...
Other investment income	10.1	3.6	1.9	14.0	195.6	-26.6
Workers' remittances	77.7	77.1	31.3	14.7	1371.1	791.3
Total Services	100.0	100.0	100.0	100.0	1313.7	637.2

For source and notes, see Tables A-1 and A-2.
1/ Covers Bahrain, Kuwait, Oman and Saudi Arabia. Qatar and the United Arab Emirates were excluded for lack of comparable data.
2/ For Saudi Arabia, as of 1982, the credit entry includes amounts appropriate to "passenger services", "travel" and "other foreign official". On the debit side, it covers expenditures abroad by Trans-Arabian Pipeline System (PIPELINE) and by Arabian American Oil Company (ARAMCO); and from 1982 includes also amounts appropriate to "other transportation" and "travel".
3/ Covers Egypt, Jordan and the Syrian Arab Republic. Lebanon was excluded for lack of data.
4/ Covers Democratic Yemen and Yemen.

Table A-4. Payments and Receipts by Major Category of International Services Transactions by Country
(per cent)

	Bahrain	Democratic Yemen	Egypt	Jordan	Kuwait	Oman	Saudi Arabia	Syrian Arab Republic	Yemen	Total (millions US$ = 100%)
Shipment										
Credit										
1980	3.1	1.2	...	7.4	79.4	...	-	2.9	6.1	181.9
1986	...	0.5	...	12.8	80.0	...	-	5.9	0.8	460.4
Debit										
1980	4.5	0.8	10.1	3.5	12.3	2.6	61.4	1.5	3.2	7498.5
1986	4.7	1.0	14.3	5.2	15.7	4.9	48.3	4.3	1.7	5161.6
Other transportation										
Credit										
1980	1.9	0.9	32.1	6.6	14.4	0.2	42.2	1.5	0.2	3906.9
1986	2.2	1.2	66.6	9.0	13.6	0.4	2.1	4.6	0.3	2892.0
Debit										
1980	0.3	0.8	14.9	8.1	16.1	...	57.8	2.0	0.2	1768.9
1986	4.5	1.0	33.8	19.2	31.9	...	...	9.3	0.3	1037.6
Travel										
Credit										
1980	3.4	0.2	18.6	16.4	11.9	...	42.3	4.9	2.3	3174.9
1986	6.7	0.5	22.6	42.8	6.9	...	...	16.8	3.8	1242.5
Debit										
1980	2.3	0.2	3.6	7.7	28.5	0.7	52.2	3.8	1.1	4702.5
1986	2.2	0.3	1.9	16.3	71.4	1.7	...	5.5	0.7	2719.4
Other official goods and services										
Credit										
1980	1.8	2.7	15.4	6.1	27.2	-	18.8	24.4	3.7	464.6
1986	...	1.9	10.7	1.8	47.1	-	...	32.6	5.9	438.3
Debit										
1980	-	0.2	1.0	1.5	2.6	-	93.3	1.1	0.2	16563.2
1986	...	0.6	2.3	1.7	6.1	-	87.8	1.3	0.2	11802.8
Other private goods and services										
Credit1/										
1980	2.3	2.0	30.2	11.7	0.9	...	47.3	2.1	3.6	1568.2
1986	9.8	0.8	24.7	4.4	-	...	58.2	1.2	0.9	4478.8
Debit2/										
1980	0.4	0.3	21.0	1.6	1.8	6.1	67.8	0.2	0.9	4746.1
1986	0.2	0.3	15.7	0.4	0.6	3.9	78.0	0.3	0.4	10156.8

Table A-4. (cont'd.)

	Bahrain	Democratic Yemen	Egypt	Jordan	Kuwait	Oman	Saudi Arabia	Syrian Arab Republic	Yemen	Total (millions US$ = 100%)
Direct investment income										
Credit										
1980	...	-	100.0	...	-	...	-	...	...	23.4
1986	...	-	100.0	...	-	...	-	...	...	54.0
Debit										
1980	...	-	0.2	...	-	3.9	95.9	...	...	7215.6
1986	...	-	1.4	...	-	39.0	59.6	...	...	1106.2
Other investment income										
Credit										
1980	2.2	0.2	1.8	0.9	39.2	0.7	53.1	0.7	1.2	14011.5
1986	1.3	0.1	1.7	0.5	39.1	2.9	54.3	0.1	0.1	20764.5
Debit										
1980	13.7	0.3	34.1	4.7	38.0	3.9	-	4.7	0.6	1684.3
1986	6.6	0.6	44.0	9.6	23.8	7.9	-	5.4	2.0	2524.6
Workers' remittances										
Credit										
1980	-	6.0	45.6	13.4	-	0.6	-	13.1	21.3	5905.9
1986	-	6.1	51.8	24.5	-	0.8	-	5.2	11.7	4842.6
Debit										
1980	4.9	0.1	-	2.6	11.8	6.8	69.9	...	4.0	5860.3
1986	9.1	-	-	3.2	13.9	11.4	61.6	...	0.9	7802.3

For source and notes, see Tables A-1 and A-2.
Note: The information contained in this table should be interpreted taking into consideration the numerous notes to Annex Tables A-1 and A-2.
a/ For Saudi Arabia, from 1982, the entry includes amounts appropriate to "passenger services", "travel" and "other foreign officials".
b/ For Saudi Arabia, from 1982 the entry includes amounts appropriate to "other transportation" and "travel".
... = Not available.
- = Nil or negligible.